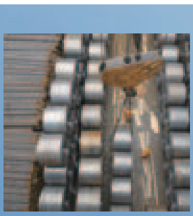
Pacific Basin

Passion for Service



Annual Report 2012

Stock Code : 2343

Welcome to Pacific Basin

For 25 years, Pacific Basin has built a strong name as a specialist Handysize bulk carrier owner and has evolved into an industrial provider of freight services directly to producers and end-users of raw materials and commodities.

Our performance track record and market share in our minor bulks focus area have earned us a strong reputation which, supported by our strong balance sheet:

a) sets us apart as a preferred counterparty for cargo customers and tonnage providers, affording us access to long-term business opportunities; and

b) allows us to engage closely with other excellent partners and stakeholders, including shipyards, suppliers, banks, investors and some of the best talent in our industry.

Navigation symbols

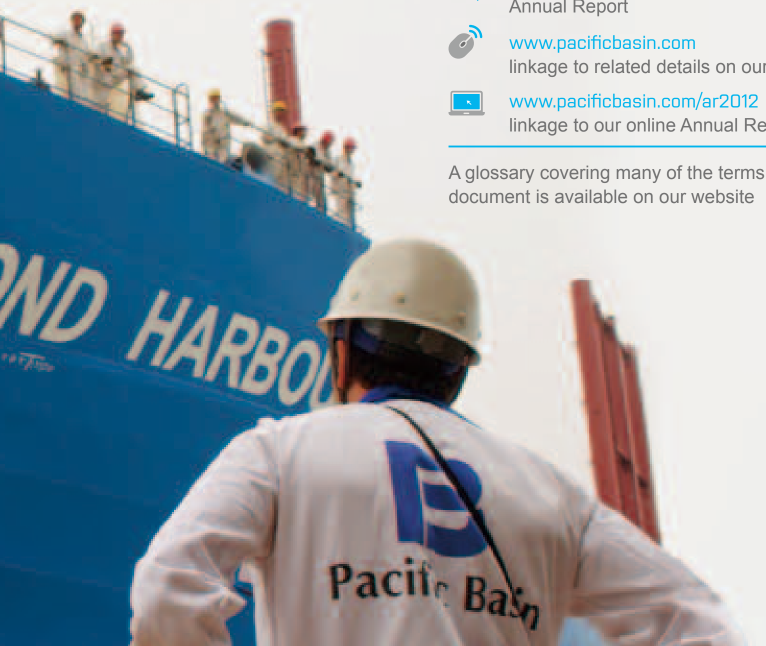
Audited information

linkage to related details within the Annual Report

www.pacificbasin.com
linkage to related details on our website

www.pacificbasin.com/ar2012
linkage to our online Annual Report

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



Our Vision

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

Our Mission

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

Our Opportunity

The market for Handysize bulk carriers is highly fragmented and lacking in large ship operators able to fulfil the need of major industrial customers for a reliable, flexible and competitive dry bulk shipping service that affords them fully predictable long-term freight cover. Only very few players in the Handysize segment can promise to provide the right kind of ship in the right place at the right time up to several years in the future. We may already be the world's largest owner and operator of Handysize ships, but we still have a long way to go before we achieve our current vision for Pacific Basin.

Our Strategy

To achieve sustainable growth through optimisation of our fleet and through a continuous drive for efficiency, responsibility and professionalism in the way we run our business

Key Strategic Objectives for 2013

- Continue to invest in Handysize and Handymax ships at attractive prices thereby growing further our fleet of high-quality, owned vessels
- Expand our dry bulk customer and cargo portfolio in tandem with our core fleet expansion
- Enhance the customer experience by implementing more decentralised operational support
- Grow our towage businesses
- Consider opportunities for divestment of our remaining non-core activities

2012 Financial Highlights

Net Loss

US$(158)m

Underlying Profit

US$48m ⬇ 17%

Operating cash flows

US$149m ⬇ 7%

Cash Position

US$753m ⬆ 22%

Dividend per Share

HK¢5 ⬇ 50%

Operational Highlights

Our Dry Bulk Fleet Size

155ships ⬆ 18.3%

Handysize Daily Earnings

US$10,460/day

⬇ 22.7%

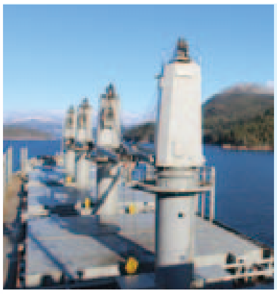
2013 Handysize Contract Cover

55%

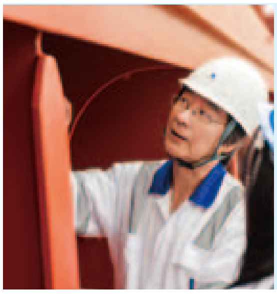
Contents

Group Overview

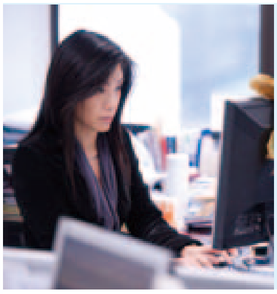
Business Review



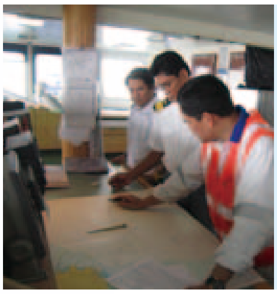
Financial Review



CSR Report



Governance



Financial Statements

Financial Summary

	2012 US$ Million	2011 US$ Million (restated)	2010 US$ Million
Results			
Revenue*	1,443.1	1,312.8	1,268.5
Gross profit*	81.9	108.4	159.3
EBITDA (excluding impairments)	145.1	218.7	214.7
Underlying profit	47.8	57.8	119.8
Finance costs, net*	(18.5)	(28.8)	(31.2)
Discontinued operations – loss for the year	(210.7)	(90.6)	–
(Loss)/profit attributable to shareholders	(158.5)	32.0	104.3
Balance Sheet			
Total assets	2,470.3	2,431.8	2,555.4
Net borrowings	178.0	160.8	156.0
Shareholders' equity	1,332.0	1,484.9	1,544.9
Total cash and deposits	753.5	618.2	703.4
Capital commitments	235.9	334.5	426.9
Cash Flows			
Operating	148.7	159.4	198.6
Investing	(225.0)	(35.0)	(462.2)
Financing	110.2	(166.3)	(96.5)
Change in cash	33.9	(42.0)	(360.1)
Per Share Data	HK cents	HK cents	HK cents
Basic EPS	(64)	13	42
Dividends	5	10	21.5
Operating cash flows	60	64	81
Net book value	534	597	621
Share price at year end	435	311	517
Market capitalisation at year end	HK$8.4bn	HK$6.0bn	HK$10.0bn
Ratios			
Net profit %	(11%)	2%	8%
Eligible profit payout ratio	>100%	78%	51%
Return on average equity	(11%)	2%	7%
Total shareholders' return	40%	(36%)	(5%)
Net borrowings to net book value of property, plant and equipment	14%	11%	10%
Net borrowings to shareholders' equity	13%	11%	10%
Interest coverage (excluding impairments)	3.6X	4.9X	4.1X

* relates to continuing operations (2011 figures restated)

Business Highlights

Our core dry bulk business again outperformed in a significantly poorer market
PB Towage has delivered increasingly profitable results
PB RoRo was hard hit by the weak RoRo market

Group

Results were impacted by
- a US$199 million write-off for our RoRo business
- very weak dry bulk market spot rates
- a strong US$38 million contribution from PB Towage

Our balance sheet retains substantial buying power with total cash and deposits of US$753 million and net borrowings of US$178 million

We currently have fully funded capital commitments of US$236 million relating to 16 dry bulk vessels

Fleet

Contract cover is in place for 55% of our contracted 29,760 Handysize revenue days in 2013 at US$9,340 per day net (54% of 28,240 days at US$11,480 as at 27 February 2012)

We have acquired eight dry bulk vessels (including one newbuilding resale) since September 2012

Our fleet currently numbers 239 vessels (including newbuildings) comprising 189 dry bulk ships, 44 towage vessels and 6 RoRos

Outlook

Dry bulk market weakness is expected to continue through 2013

Healthier fundamentals should limit further downside in Handysize

Dry bulk market conditions overall are likely to remain challenging and generate further vessel acquisition opportunities

Towage outlook remains positive and we aim to grow our towage businesses in 2013

Our RoRo charter market exposure has been eliminated and our RoRo business is discontinued

Confidence and opportunity in challenging times

Our Chairman reports on our Group performance and reflects on the outlook and strategy for Pacific Basin

David M. Turnbull

Chairman

Hong Kong, 28 February, 2013

WE HAVE CREATED A STRONG PLATFORM FOR PROFITABLE GROWTH...

2012 was an important year in Pacific Basin's evolution towards becoming a more focused company and towards achieving our vision for the future.

While the dry bulk market was very weak, we continued to significantly outperform the freight market indices, benefiting from the value of an effective business model and the right people and tools to realise economies of scale for the benefit of our customers and other stakeholders alike. We are committed to our proven strategy to build shareholder value over the long term by fleet optimisation through the market cycles, and by empowering our employees with the tools and processes to improve our levels of service and efficiency and to run our business professionally and responsibly.

I see that strategy in action and, while we benefit immensely from the diversity that comes from staff of 30 nationalities, it is comforting to observe across the Group a collective determination to improve what we do through a common set of sensible business values and a shared mission. For that, I am extremely grateful to all Pacific Basin staff at sea and ashore.

...WHICH HAS DELIVERED POSITIVE UNDERLYING RESULTS AND A HEALTHY CASH FLOW

The Group produced a net loss of US$158 million (2011: US$32 million profit) from an underlying profit of US$48 million (2011: US$58 million).

Basic EPS on continuing operations was a positive HK 21 cents while total EPS was a negative HK 64 cents, and the associated return on shareholders' equity was negative 11%. Our operating cash flow remained positive at US$149 million (2011: US$159 million).

Results for the year were impacted by:

- a US$199 million write-off for our RoRo business which is discontinued;
- very weak Handysize and Handymax market spot rates which reduced our vessel operating margins; and
- continued growth of our towage business which delivered a strong contribution of US$38 million.

Positive underlying results and a healthy cash flow were partly attributable to the significant outperformance of our dry bulk business during the weakest dry bulk market since 1987.

Page 16 & 30
See Business Review and Financial Review for more on our two core divisions

Our average Handysize daily earnings fell 23% year on year to US$10,460 per day, still beating the market index earnings of US$7,245 by 44% in 2012 and continuing to demonstrate the value of our industrial and customer-focused business model and the cargo book this brings.

Our Handymax earnings outperformed the market by 31%, but our reliance on relatively expensive medium-term chartered ships in the depressed market resulted in a modest albeit positive Handymax contribution overall.

Group results also benefited from the robust performance of our PB Towage business centred in the active Australian market.

As we had expected, our RoRo business had another loss-making year due to the protracted weak RoRo charter market. In September, following the significant impairment of our RoRo investment at the interim and our decision to exit the sector over the medium term, we secured the forward sale of all six of our RoRo ships to the Grimaldi Group who are taking the ships on bareboat charter in the intervening period, thus eliminating our exposure to the RoRo spot charter market.

In line with our strategic objective of considered divestment of non-core businesses, we disposed of our minority interest in a cargo terminal in Nanjing, cancelled our undrawn commitment to a clean-tech fund and, as announced in March, sold our marine surveying company PacMarine Services, all of which allows us to concentrate more of our resources on our core activities.

DIVIDEND

In view of the Group's positive operating cash flow and, despite the loss-making result for 2012, the Board has recommended a final dividend of HK 5 cents per share (2011: HK 5 cents final, HK 10 cents full year).

Page 83 & 128
Dividend policy & accounting details

THE MARKET REMAINS WEAK AND WE ANTICIPATE A SLOW RECOVERY

We expect the dry bulk market weakness of 2012 to continue through 2013 and that it will take some time before a sustained recovery becomes apparent. While supply-side fundamentals are improving, the market needs longer to absorb the over-supply of mainly larger ships generated by the newbuilding deliveries of recent years. More restrained ordering of Handysize newbuildings has resulted in a healthier balance in our market segment, and 2013 deliveries are expected to be substantially offset by scrapping which should limit further downside in the Handysize spot freight market.

Dry bulk demand in 2012 grew by 7% year on year and the Handysize segment should continue to be reasonably well supported, particularly by healthy growth in Chinese imports of raw materials. However, conditions overall are likely to remain challenging and to generate further vessel acquisition opportunities.

The outlook for the towage market and our PB Towage business in Australasia remains positive for 2013. Our harbour towage job numbers are still on the rise, the offshore construction market remains active, and currently contracted business indicates a continued high degree of utilisation of our tug fleet during the year.

OUR FURTHER INVESTMENT IN DRY BULK

The protracted dry bulk market weakness further impacted ship values over 2012 as we had anticipated. After a one-year pause, we returned to the ship acquisitions market in September, at which time vessel prices had softened to pre-boom levels. In the past six months we have acquired six secondhand Handysize vessels, one Handysize newbuilding resale and one secondhand Handymax vessel.

We believe the timing is right to acquire our preferred types of Handysize and Handymax ships and, as a priority, we are initially focused on secondhand ships which currently offer us better value than newbuildings at today's prices. Availability of the right ships remains tight, but we are well positioned to access both on-market and off-market opportunities as our acquisitions of the past few months have shown.

In October we raised US$124 million through a convertible bond issue on terms that represent an attractive cost of additional funding to further enhance our ability to grow our Handysize and Handymax fleet and to partly refinance our existing convertible bond.

As at 31 December 2012, we had total cash and deposits of US$753 million and net borrowings of US$178 million. Our vessel capital expenditure obligations currently amount to US$236 million payable in the next two years in respect of 16 ships, leaving substantial buying power on our balance sheet for further fleet expansion.

A CLEAR FOCUSED STRATEGY

We reached out for formal feedback from our customers and investors in 2012, the findings of which served to support and refine the direction we are heading while also providing comments on where we can improve and how we can advance our business to the next level. That valuable feedback has resulted in enhancements to the tools and processes with which we arm our staff, and is reflected in a number of new departmental objectives for this year.

On a Group level, our focus will be on five key strategic objectives for 2013, which are to:

1. continue to purchase Handysize and Handymax ships at attractive prices, thereby growing further our fleet of high-quality, owned bulk carriers, selectively capitalising on opportunities that have recently started to emerge;
2. expand our dry bulk customer and cargo portfolio in tandem with our core fleet expansion;
3. enhance the customer experience through decentralised operational support;

4. grow our towage businesses; and
5. consider opportunities for divestment of our remaining non-core activities.

Last year the Pacific Basin team rose to the business challenges and strategic objectives set by the Board and, with the recent purchase of eight dry bulk ships and significant long-term cargo volumes contracted for 2013 and beyond, I am confident that our staff will draw on this momentum and again make similar strides in meeting our objectives for this year.

WE TAKE OUR RESPONSIBILITIES SERIOUSLY

Our platform for creating long-term value is based on good corporate governance and sustainable business practices.

- Corporate governance brings structure and credibility to our decision-making and communications processes, and so we are committed to maintaining our sound internal controls, transparency and accountability to all stakeholders. We believe a solid corporate governance structure underpins all components of our business and enhances stakeholder confidence in Pacific Basin as a partner and a place to invest.
- Sustainable business practices involve good corporate social responsibility. Our CSR initiatives involve commitments to sound operating and business practices, minimising the impact our operations have on the environment at sea and on shore, engaging with the communities where our employees live and work and creating workplace conditions that allow our people to thrive.

Page 41
CSR Report

www.pacificbasin.com
about us > corporate responsibilities
Our commitment to CSR and corporate governance

We continue to improve our corporate governance and CSR structures not only because of the moral obligation we feel we have to do so, but also because we believe they make our business competitively stronger and positively impact long-term shareholder value.

Once again our standards of corporate governance, investor relations, and safety and CSR management were recognised through a number of awards in all these areas, including the International Bulk Journal's Environmental Protection Award, and The Asset's Gold Awards for Investor Relations and for Social And Environmental Responsibility.

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News and Achievement

STRENGTH IN OUR SENIOR MANAGEMENT TEAM

Mats Berglund has settled in well as CEO and is proving to be an excellent fit for Pacific Basin. Under Mats, the day-to-day running of the Company is in excellent hands. On page 14, you can read Mats' comments on some of the developments that have been of recent interest or concern to stakeholders.

OUTLOOK

Despite the disappointing RoRo outcome, we can be satisfied with the respectable underlying results that we achieved in 2012 through a lot of hard work in a very weak market. We can expect similarly tough conditions to characterise much of 2013, and I am confident that we have the business model, strategy, systems, reputation, financial strength and – most importantly – the people required to make the most of the continued market turmoil and to emerge from it larger and more competitive.

The Board joins me in thanking our conscientious staff and loyal customers and other stakeholders for their support of the Company over the past year and in the future.

With you for the long haul

"What I see is a team of people passionate about delivering excellent service. I also see a company with a robust core dry bulk shipping business underpinned by a tremendously effective cargo and customer-focused, industrial dry bulk business model, and a lot of good, talented, team-focused people who share a sensible set of business values."
– Mats Berglund, Chief Executive Officer, Interim Report 2012

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

We believe that the core sentiment of these stories is encompassed in our theme for 2012...

Passion for service

….and that the tone and promise of the Pacific Basin brand is summed up in our tagline

With you for the long haul

WHAT WE STAND FOR

We are passionate about our customers, our business, our people and our brand, so what matters to us most is:

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

www.pacificbasin.com
about us > corporate values
Pacific Basin business principles

09 Tommy Hui
Fleet Manager

27 Harry Stapleton
General Manager,
Dry Bulk, Chile

41 P.B Subbiah
Director, Human Resources

50 Capt. Bienvenido C. Frias
Master, m/v "Silver Lake"

51 Becky Wong
Senior Operations Executive

85 Cristinel Coman
Newbuilding Site Manager

What We Do

Pacific Basin is headquartered and listed in Hong Kong, we have 2,100 seafarers and 320 shore-based staff in 17 offices, and we operate globally in our two maritime segments under the banners of:

Pacific Basin Dry Bulk

We provide a professional, reliable, customer-focused and competitive freight service to industrial producers and users of raw materials and other dry bulk commodities under long-term cargo contracts and on a spot basis

PB Towage

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

PB RoRo

We are exiting the RoRo sector to refocus our business on our two core maritime activities, and we now consider PB RoRo a discontinued operation

Our Worldwide Network

www.pacificbasin.com
contact us > our worldwide network
See our contact details

17 offices globally

14 dry bulk offices

10 chartering offices on 6 continents
positioning us close to our customers

Our Fleet as at 25 February 2013

		Vessels in operation	Newbuildings on order	Total
Dry Bulk[1]	Handysize	122	11	133
	Handymax	48	6	54
	Post-Panamax	2	–	2
Towage	Tugs & Barges	44[2]	–	44
RoRo	Roll-on Roll-off	6	–	6
	Total	**222[3]**	**17**	**239**

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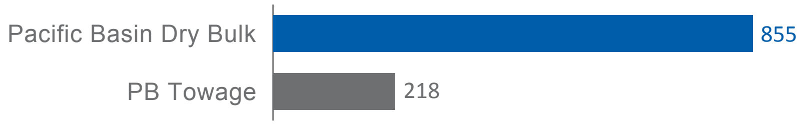
[1] average age of our dry bulk core fleet: 6.2 years

[2] comprising 35 tugs, 7 barges, 1 passenger/supply vessel and 1 bunker tanker

[3] including 4 recent secondhand dry bulk acquisitions not yet delivered

www.pacificbasin.com
about us > fleet > fleet download
Download our latest fleet list

Segment Net Assets US$ million (at year end)



Our People

Passion for service

Great customer service at the commercial level is nothing without an equally high degree of technical reliability and crew quality. Like many of my colleagues in Pacific Basin's technical department, I draw on many years of experience at sea and on shore to deliver a high-quality service, effective management and the best possible support to our crew who run our ships. With a focus on safety and routine technical management of our ships, we work with our teams at sea and our suppliers and service providers ashore to deliver and maintain reliable hardware ensuring that our vessels are ready to trade wherever our commercial colleagues need them – ultimately to reliably satisfy the freight needs of our customers around the world.

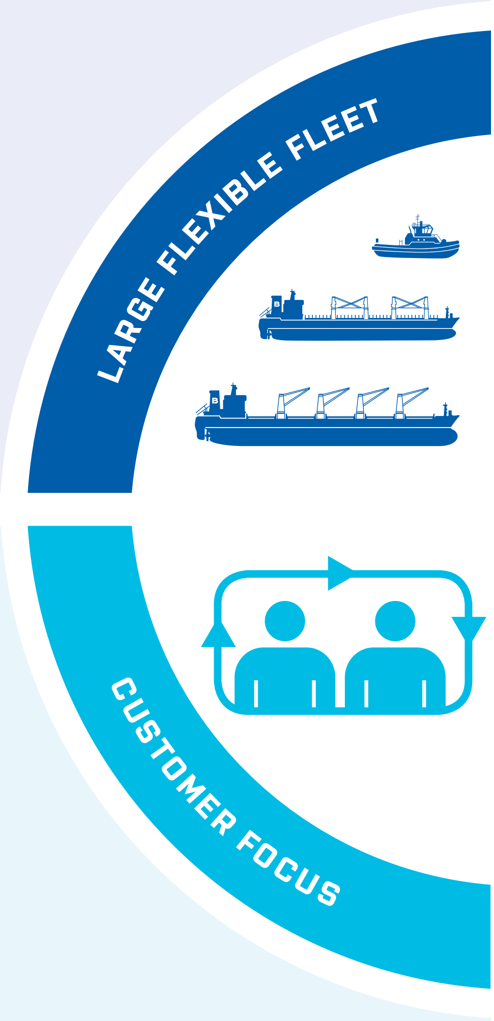
Tommy Hui
Fleet Manager
Fleet Management – Technical

How we create value

Our business model leverages four broad characteristics

Our large, flexible fleet

- The scale of our high-quality dry bulk fleet and interchangeable nature of our vessels provide flexibility to our customers and the ability to optimise scheduling in order to maximise vessel utilisation
- Our modern fleet of tugs and barges provides reliable service in harbours and for offshore projects
- In-house technical operations ensure the highest standards of quality, health and safety among our seafarers and across the vessels we control; combining this with a local chartering and commercial presence provides customers seamless, integrated service and support

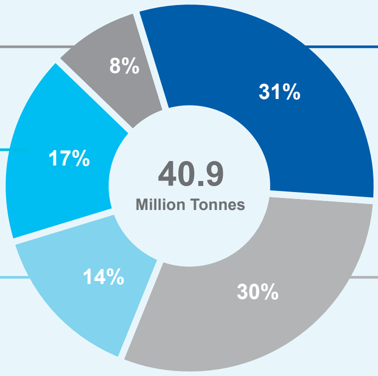


Our customer focus priority

- Building and sustaining long-term relationships with our customers underscores how we operate and interact
- Our customer focus enhances our access to spot cargoes and long-term cargo contract opportunities
- We are proud that our customers tell us we are responsive, accessible and problem-solvers at every turn

Our dry bulk cargo volumes in 2012

● Minerals	
Salt	3%
Sands & Gypsum	5%
● Metals	
Alumina	5%
Ores	5%
Concentrates & other metals	7%
● Energy	
Coal	7%
Petcoke	7%



● Agricultural Products	
Grains	16%
Fertiliser	10%
Sugar	5%
● Construction Materials	
Logs & Forest Products	15%
Steel & Scrap	7%
Cement & Cement Clinker	8%

Our strong corporate profile

- Founded in 1987, Pacific Basin's reputation has been built on 25 years of quality operations, transparent track record and sizeable market share
- A conservative financial structure has resulted in a strong balance sheet enhancing Pacific Basin's profile and setting us apart as a preferred counterparty for cargo customers and tonnage providers
- We are well-positioned to invest in expansion when market conditions are optimal
- We take our responsibilities seriously, and so our commitment to good corporate governance and CSR is embedded across our daily operations and communications

Our global office network

- Being local means we have a clear understanding of our customers' needs and can offer a first-rate personal approach to service
- Being global means we have comprehensive market intelligence which enables more optimal cargo combinations and more effective trading and positioning of our fleet

Our offices and areas of activity

How we run our business

These are our **key strategic drivers** and the main **objectives** we pursue to optimise opportunity and drive our performance, so as to deliver shareholder value and take us closer to achieving our vision

Strategic Drivers and Objectives

How we address our key drivers, providing a framework for sound business management to optimise opportunity and mitigate risk

Investment in our fleet

- Grow our dry bulk fleet through acquisitions in the current down-cycle creating a significant growth driver
- Secure long-term chartered-in Handysize and Handymax ships
- Ensure flexibility in our fleet composition (owned vs chartered ships)
- Secure dry bulk cargo cover
- Expand our towage fleet as harbour towage volumes and offshore projects dictate
- Maintain competitive daily vessel costs
- Maintain net borrowings and gearing below long-term targets
- Maintain significant cash reserves

Deepening our relationships

- Deliver highest achievable degree of customer satisfaction
- Maintain our reputation and stakeholder network
- Enhance our growing reputation in the towage market

Investment in our people

- Enhance staff skills and experience
- Develop talent and leadership
- Succession planning
- Promote employee engagement

Ensuring long-term sustainability of our business

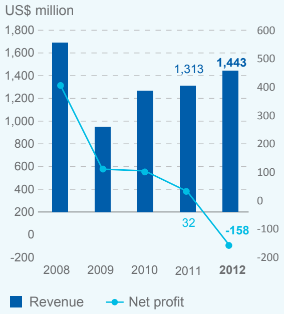
- Improve safety and reliability
- Address governance and CSR responsibilities
- Enhance corporate profile and financial strength
- Assess and evolve our internal governance practices
- Engage in active communication with stakeholders

Performance Highlights – Group

Headline measures we use to monitor progress against our strategic objectives

Revenue & Net Profit

US$(158) million net loss

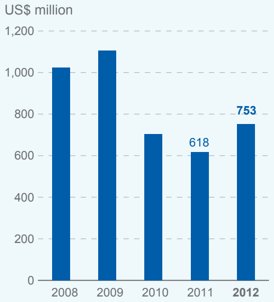


Earnings Per Share & Return on Average Equity

HK¢(64) EPS

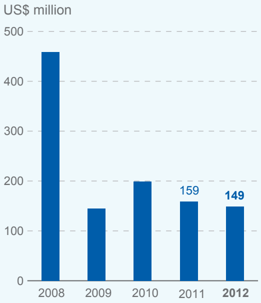
Cash Position

US$753 million ⬆ **22%**



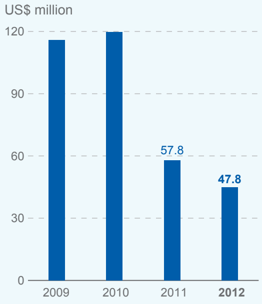
Operating Cash Flow

US$149 million ⬇ **7%**



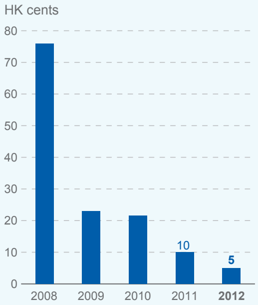
Underlying Profit

US$47.8 million ⬇ **17%**



Dividend Per Share

HK¢5 ⬇ **50%**

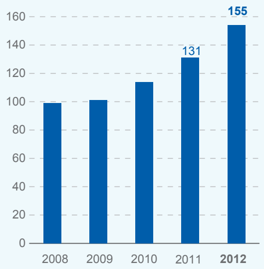


– Dry Bulk

Our Dry Bulk Fleet Size

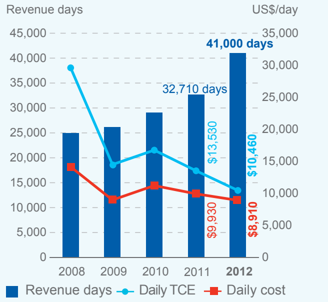
155 ships **18%**

(Average number of ships on the water)



Handysize Revenue Days & Daily Rates

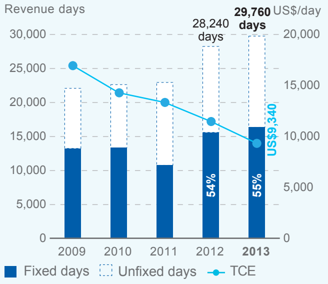
US$10,460 per day **23%**



Cargo cover & rates – Handysize

55% **1%**

(cargo cover secured for the current year, as at the time of annual results announcement)



Key Risks

Principal risks that might derail our progress towards achieving our vision and impact shareholder value

Financial performance

Examples of risks faced by our divisions

- **Market Risk** – Volatility in:
  - – freight or charter markets
  - – operating costs, interest rates and fuel prices
  - – foreign currency exchange rates
- **Vessel Investment & Deployment Risk** – Poor timing and choices of ship, fleet composition and vessel deployment
- **Credit & Counterparty Risk** – Default or breach of obligations by our counterparties
- **Insurance Risk** – Inadequate insurance covering maritime risks
- **Liquidity Risk** – Maintaining sufficient cash resources and ability to service debt and comply with key loan-to-value covenants
- **Capital Management Risk** – Adequacy of profit, operating cash and management of capital structure

* Pacific Basin Dry Bulk – An inability to grow our long-term cargo book in tandem with our fleet would result in increased exposure to the more volatile spot freight market

* PB Towage – Market shifts, competitive threats and cost escalation prevalent in the Australasian towage segment could adversely impact financial performance

* PB RoRo – Reliance on a single counterparty for payment for our sold vessels

Relationships & customer satisfaction

- **Customer Satisfaction & Reputation Risk** – Damage to the trust and support of customers and suppliers
- **Banking Relationships Risk** – Deterioration of our relationships with banks and other debt providers

* Pacific Basin Dry Bulk – Failure to maintain close relations with shipyards and shipowners may severely limit access to the best Handysize and Handymax vessels

People & skills

- **Employee Engagement Risk** – Failure to attract, engage, develop and retain talented, qualified and reliable shipping executives, seafarers and specialist staff
- **Succession Risk** – Inadequate succession planning resulting in disruption to our strategic momentum and the business

* PB Towage – A tight and regulated labour market and substantial resource shortages in Australia make it difficult to attract skilled tug crew and quality shore staff

Investor & stakeholder confidence

- **Corporate Governance Risk** – Inadequate corporate governance structure resulting in unprofessional decision making and reduced stakeholder confidence in the Company
- **Investor Relations Risk** – Poor quality or inaccurate external communication of our business

Safety, environment & reliability

- **Safety Risk** – Inadequate safety, operational and training standards on our vessels and piracy threat
- **Environmental Risk** – Inadequate systems and initiatives to reduce our environmental impacts
- **Vessels & Systems Risk** – Failure to operate and utilise reliable, high-quality vessels, equipment and systems resulting in periods of vessel off-hire

Page 18-19	PB Dry Bulk KPIs
Page 23	PB Towage KPIs
Page 28	Group KPIs
Page 46-48	CSR KPIs
Page 82	IR KPIs
Page 52	Risk Management

CEO
Questions & Answers

Mats Berglund joined Pacific Basin on 1 June 2012, bringing with him a fresh leadership style and valuable senior management experience in various maritime sectors. Nine months on, our stakeholders by now have a reasonable sense what Mats' presence and style mean for Pacific Basin. Here are some questions recently put to Mats, together with his answers that you may find of interest.

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Mats Berglund
Biography

Mats Berglund

Chief Executive Officer

Q: SINCE YOU JOINED PACIFIC BASIN, WHAT HAS BEEN YOUR MAIN FOCUS?	**A:** Foremost on my agenda was to fully familiarise myself with my new colleagues and the intricacies of Pacific Basin's business while taking concrete steps in four priority areas, including: • restructuring PB RoRo with a view to securing an exit in the medium term; • conducting a strategic review of our dry bulk business and developing an investment plan that, as a priority, will change our fleet composition towards more owned ships; • exiting other non-core businesses; and • assessing the strengths and weaknesses of the Pacific Basin organisation. I am delighted with the way the team responded to the Board's call to consolidate the business and distil it down to what we do best. We have already begun to see the fruits of that work, as substantially all our resources are now directed towards our dry bulk and towage businesses.
Q: NINE MONTHS INTO YOUR TENURE, IS PACIFIC BASIN ALL THAT YOU EXPECTED IT TO BE AND IS THE COMPANY ON THE RIGHT COURSE STRATEGICALLY?	**A:** Pacific Basin is a great company in excellent shape, much as I expected. Our dry bulk business model and strategy are very focused – that is to say customer focused, cargo focused and segment focused – which I value. I believe in the importance of this and in doing just a few things really well. The Handysize segment continues to demonstrate great resilience in these challenging times and our business model allows us to continue to outperform our market index. All things considered, Pacific Basin's focus on the Handysize and Handymax dry bulk business is absolutely where we need to be, and is therefore central to our investment plan. We are now generating good returns from our towage business which we have grown over the past few years and which draws on its strong position in a niche market. The same could not be said of our RoRo business, and the Board's decision in 2012 to exit the RoRo sector has allowed us to refocus on the few things that we do best. As such, we are absolutely on the right course strategically.
Q: WITH YOUR EXPERIENCE IN TANKERS, SHOULD WE EXPECT THE COMPANY TO DIVERSIFY IN THIS DIRECTION?	**A:** No, as I have said before, the Board and I share a firm view that we should focus on what we do best, which rules out diversification into areas not linked to our existing core businesses. Instead we will continue to work very hard on strengthening our existing platforms, further building and expanding our customer relationships and cargo cover, mindful that one cannot build large cargo books and generate highly-efficient vessel utilisation without scale.

Q: DID YOU SELL THE RORO VESSELS AT THE BOTTOM OF THE MARKET TO "CLEAR THE DECKS" AFTER TAKING THE CEO POSITION?

A: We sold the vessels because, at the time of my arrival at Pacific Basin, it became apparent to the Board that the prospects for large RoRo vessels had changed significantly and would not improve anytime soon. This resulted in a downgraded outlook for our RoRo business and a decision to exit this sector in an economically rational manner. We did not expect a full exit to be possible in the near term due to the dysfunctional state of the RoRo sale and purchase market. Fortunately, however, we were able to reach a deal with Grimaldi in what turned out to be a few months after I joined. Through that deal, we were able to secure full bareboat employment for the ships and purchase obligations with forward delivery, thus fully addressing our RoRo exit strategy.

Q: WHAT WAS THE PURPOSE OF THE CONVERTIBLE BOND ISSUE AND HOW HAS IT BEEN RECEIVED?

A: We continue to access three external sources of capital – equity, convertible bonds and bank loans including export credits. Utilising the general mandate we received from shareholders in April 2012, we saw an opportunity to renew part of our convertible bond funding on terms that represented an attractive cost of capital. The opportunity made all the more sense as we considered market conditions right for growing our Handysize and Handymax fleets, and we were – and still are – readying ourselves for significant further investment in Handysize and Handymax ships in anticipation of further acquisition opportunities.

As is often the case with share or convertible bond issues, the initial reaction from some shareholders may have been one of concern about the effect of dilution on their holdings in the Company. However, our share price has since gained over 15% in value in the five months since the issue was announced, and investors whom we have since met have expressed their understanding and support for the convertible bond issue which stands to enhance our ability to build shareholder value in the medium and long term.

Q: HOW DO YOU EXPECT YOUR INTEREST IN TOWAGE TO DEVELOP?

A: PB Towage delivered strong results in 2012 and we expect this business to make a valuable contribution to our group performance in 2013 as we consider ourselves well placed to participate in continued growth in Australian offshore energy projects as well as harbour towage activity. Australia is a niche market with significant barriers to entry and our position there is strong. We want PB Towage to grow in line with the increasing activity in this sector, though only through carefully considered investments against specific customer needs and project opportunities.

Q: HOW DO YOU SEE THE DRY BULK MARKET DEVELOPING?

A: We expect the dry bulk market weakness of 2012 to continue through 2013 and that it will take some time before a sustained recovery is reflected in market rates. In the context of global uncertainty and fairly weak GDP growth, demand is likely to remain relatively healthy as it was in 2012 when dry bulk demand grew a robust 7%. However, overall net growth in the global dry bulk fleet, while projected to be smaller than last year, will perpetuate the over-supply of recent years and inhibit any meaningful recovery in 2013.

Handysize ships will continue to fare better than larger ships this year, as reduced Handysize newbuilding deliveries will likely be substantially offset by continued high scrapping – significantly higher than we expect for larger ships. It is possible that the Handysize segment will see a net fleet contraction in 2013 and it should also be reasonably well supported by continued healthy growth in Chinese imports of minor bulks, altogether resulting in improved global Handysize fleet utilisation.

The oversupply of large dry bulk ships in recent years has resulted in lower ship values. Looking ahead, Handysize fundamentals are starting to turn and we consider the time now right to be purchasing ships and building the Group for the next shipping cycle. Since September, we have purchased eight bulk carriers and we expect to acquire more in 2013 at attractive prices. We therefore plan to expand our fleet of high-quality owned ships with which we are able to generate earnings that outperform the market due to our scale and cargo combinations.

Dry Bulk Market Review 2012

Freight Market Summary

Excessive newbuilding deliveries in 2012 impacted freight rates across all dry bulk segments and drove the Baltic Dry Index (BDI) to its lowest annual average since 1987.

Handysize and Handymax daily market spot rates averaged US$7,245 and US$8,980 in 2012 representing a year-on-year decline of 28% and 34% respectively.

As in the previous year, the market for smaller bulk carriers declined less and demonstrated lower volatility than their larger, more expensive and less versatile siblings. Quite extraordinarily, Capesize and Panamax ships generated substantially the same average earnings as Handysize ships.

Following a fourth quarter rally in 2011, dry bulk freight rates fell sharply to 26-year lows at the beginning of 2012 as a surge of newbuilding deliveries after the new year coincided with seasonal weather-related cargo disruptions and the Lunar New Year holidays in China.

In the second and third quarters Handysize and Handymax rates benefited from more buoyant conditions while large bulk carrier earnings remained depressed. Small bulk carrier rates tapered off in the fourth quarter, whereas Capesize earnings rallied temporarily from a very low base on increased Chinese iron ore imports and a seasonal slowdown in new ship deliveries, only to collapse again in December to sub-Handysize levels.

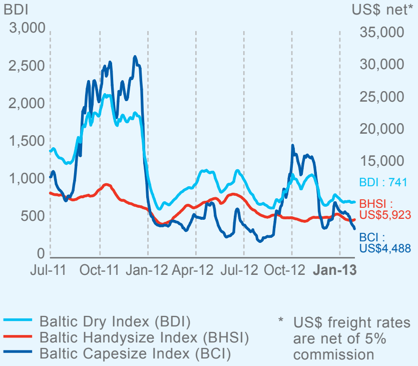
-28% ⬇ US$7,245 net*

Average market spot rates: Handysize

-34% ⬇ US$8,980 net*

Average market spot rates: Handymax

Baltic Dry Bulk Earnings Indices



Source: The Baltic Exchange, data as at 26 Feb 2013

SUPPLY DRIVERS

Key Supply Developments

Newbuilding deliveries were only partly offset by scrapping, resulting in a significant 10% year-on-year net expansion of the dry bulk fleet. 98 million deadweight tonnes of new capacity delivered and a record 34 million tonnes – 5% of the existing fleet – was sold for scrap. It was this excessive net supply growth that undermined bulk carrier earnings overall in 2012.

By contrast, the global fleet of 25,000-40,000 dwt Handysize ships in which we specialise expanded by only 3% net, benefitting from a significantly lower rate of deliveries, a high volume of scrapping and, overall, a more favourable global fleet age profile.

A rapid influx of new ship deliveries gave way to markedly reduced deliveries in the fourth quarter, representing the first sign of slowing since the start of 2010. We are confident that the peak year for deliveries is now passed.

Widespread slow-steaming reduced effective dry bulk shipping capacity in 2012.

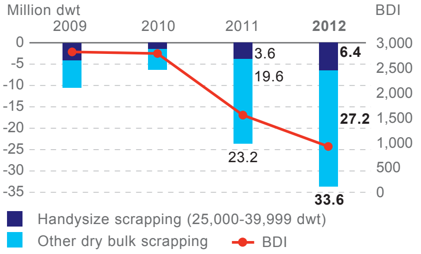
+3% ⬆

Global Handysize capacity

+10% ⬆

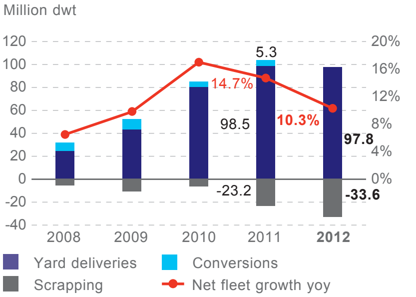
Overall dry bulk capacity

Dry Bulk Scrapping versus BDI



Source: Clarksons, Bloomberg, as at 30 Jan 2013

Global Dry Bulk Fleet Development



Source: Clarksons

IMPACTING SHIP VALUES

Ship Values

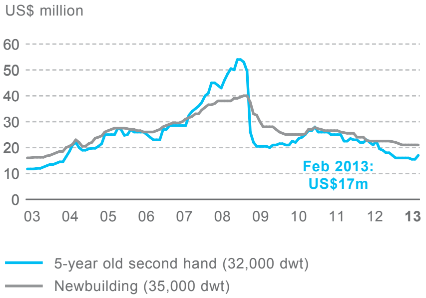
Clarksons' valuation of their benchmark five year old 32,000 dwt Handysize fell to US$15.5 million at the end of 2012 – a level not seen since before the dry bulk boom started in 2004 – and currently stands at US$17 million (down 13% from a year ago).

-13% ⬇ US$17m

Five year old Handysize value

Newbuilding prices are also now at pre-boom levels, having reduced 7% year on year to US$21 million due to competition among shipyards struggling to secure new contracts.

Handysize Vessel Values



Source: Clarksons

NEW SHIP ORDERING

Key Demand Developments

In the context of global economic uncertainty and low GDP growth, dry bulk transportation demand is estimated by R.S. Platou to have increased by a healthy 7% in 2012 year on year. Major bulk trade volumes expanded by over 5% with high-volume trade routes such as Chinese iron ore and coal imports setting new records.

Chinese imports of seven important minor bulks increased 7% YOY in 2012 (see "Chinese Minor Bulk Imports" graph) thus lending strong support to global demand for Handysize and Handymax ships. However, the logs trade was impacted by a slowdown in the Chinese property sector.

Overall dry bulk demand

+7%

Chinese imports – major bulks

+9% ↑ iron ore

+58% ↑ coal

Chinese imports – minor bulks

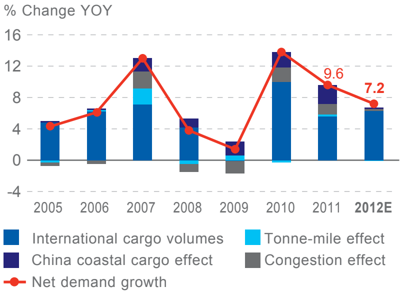
+35% ↑ nickel

-5% ↓ manganese

+12% ↑ soybeans

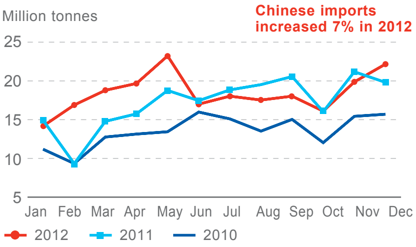
-10% ↓ logs

Dry Bulk Fleet Demand



Source: R.S. Platou, Clarksons

2012 Chinese Minor Bulk Imports



Chinese imports of 7 minor bulks including logs, soyabean, fertiliser, bauxite, nickel, copper concentrates & manganese ore

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

Source: Bloomberg

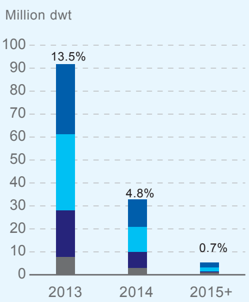
Orderbook

New bulk carrier ordering activity in 2012 decreased by 55% year on year, equivalent in capacity terms to 19% of actual newbuilding deliveries in 2012. This limited new ordering, combined with the heavy influx of new ship deliveries, has resulted in a significant reduction in the dry bulk orderbook from 30% a year ago to 19% today.

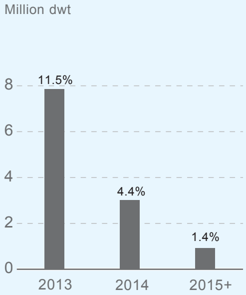
The Handysize orderbook now stands at 17% - down from 23% a year ago.

The shipbuilding industry faces: i) shipyard capacity well in excess of requirements; ii) reduced access to bank funding curbing new ship ordering; iii) shipowners struggling with excessive borrowings; and iv) declining ship values and low freight rates.

Orderbook by Year

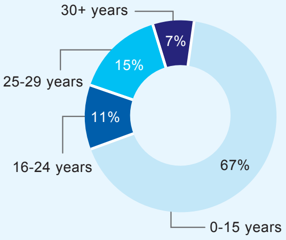


Handysize Orderbook

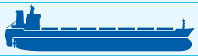


Handysize Age Profile

2,115 Vessels (68.1 Million Dwt)



Source: Clarksons, data as at 1 February 2013

			ORDERBOOK AS % OF EXISTING FLEET	AVERAGE AGE	OVER 25 YEARS OLD	2012 SCRAPPING AS % OF EXISTING FLEET ON 1 JANUARY 2013
	■	Handysize (25,000 – 39,999 dwt)	17%	11	22%	9%
	■	Handymax (40,000 – 64,999 dwt)	18%	9	9%	6%
	■	Panamax & Post-Panamax (65,000 – 119,999 dwt)	26%	8	3%	3%
	■	Capesize (120,000+ dwt)	17%	8	2%	5%
		Total Dry Bulk (10,000+ dwt)	19%	10	6%	5%

Pacific Basin Dry Bulk
How we performed in 2012

Our Pacific Basin Dry Bulk division generated a net profit of US$39.3 million despite very weak market conditions and despite a number of relatively expensive chartered ships remaining in our fleet. Our average Handysize and Handymax daily earnings outperformed their corresponding markets by approximately US$3,000 per day or 44% and 31% respectively.

This respectable performance reflects the value of our industrial and customer-focused business model and the associated valuable cargo book, backed by one of the largest, high-quality Handysize and Handymax fleets in the world. It also reflects our global dry bulk team's careful combination of the right ships with the right cargoes, ensuring our competitiveness in the market place while securing respectable fleet earnings in the market downturn.

Dry Bulk net profit

US$39.3m

Operating cash flow

US$114.1m

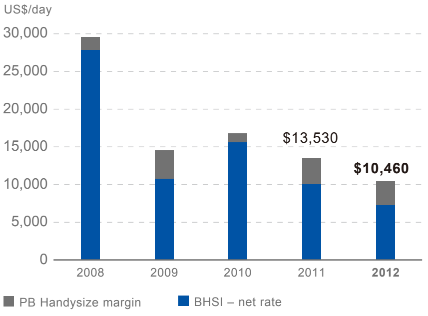
KEY PERFORMANCE INDICATORS

Performance vs Market

44%

outperformance compared to market

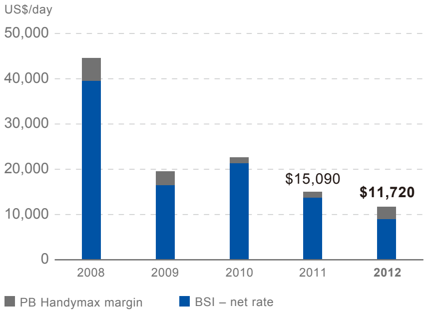
Handysize



31%

outperformance compared to market

Handymax

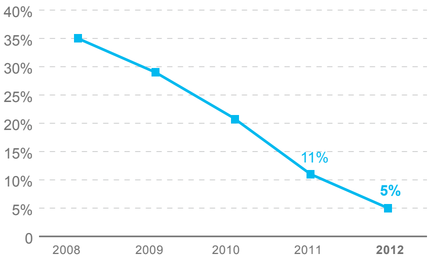


Return on Net Assets

5%

RONA

↓ 6%



PERFORMANCE

Our average Handysize and Handymax daily earnings outperformed the BHSI and BSI spot market indices by US$3,215 (44%) and US$2,740 (31%) per day respectively. This respectable performance reflects the value of our industrial and customer-focused business model and our cargo book. It also reflects the value of our fleet's scale and our global dry bulk team's ability to achieve optimal cargo combinations and match the right ships with the right cargoes.

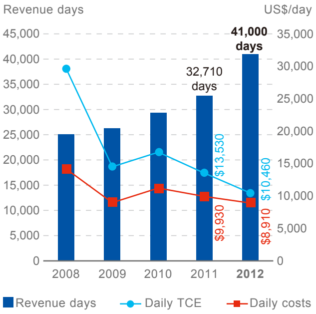
Return on dry bulk net assets was 5% which management considers a strong result in the current market environment. While we track our divisional return on assets annually, our aim is to achieve solid long-term returns on assets. We are therefore investing and increasing our asset base in the weak market so as to realise enhanced returns in future years when the dry bulk market returns to a healthier balance.

Page 10
How we create value
An illustration of our business model

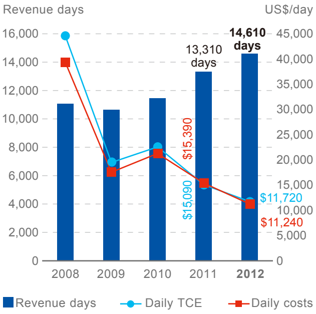
Page 29
Financial Review
Further analysis of our performance

Profitability

US$62m
contribution
⬇ 46%
Handysize



US$6.7m
contribution
⬆ 243%
Handymax



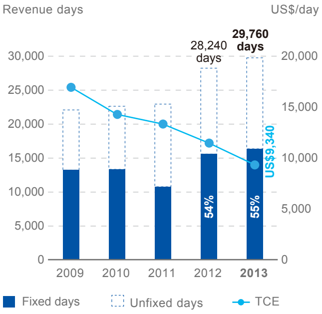
Despite very weak market conditions, our dry bulk business generated a respectable result. Our reduced vessel operating margins were partially offset by a 25% and 10% increase in our Handysize and Handymax revenue days respectively.

We operated an average of 113 Handysize and 40 Handymax ships in 2012.

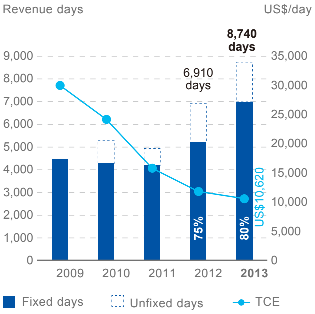
Drawing on our resilient dry bulk business model, we strive to be profitable in all market conditions.

Future Earnings and Cargo Cover

55%
cover for 2013
at US$9,340 per day
Handysize



80%
cover for 2013
at US$10,620 per day
Handymax



Cargo cover secured for the given year, as at the time of annual results announcement
2013 cover excludes revenue days chartered in on an index-linked basis

We have covered at profitable rates 55% and 80% of our Handysize and Handymax revenue days currently contracted for 2013. This provides us earnings visibility for the challenging market this year. We expect that the majority of our uncovered 2013 revenue days will generate revenue in the spot market. Cargo cover excludes chartered-in vessel commitments that are on a variable charter rate linked to relevant Baltic dry bulk indices.

Page 20 & 40
Handysize and Handymax index-linked vessel lease commitments

Pacific Basin Dry Bulk Business Highlights

Our dry bulk business has been primarily focused on two key objectives for 2012: i) to grow our dry bulk fleet through inward charters and secondhand purchases of high-quality ships at attractive rates and price; and ii) to grow our customer and cargo contract portfolio globally to manage our market exposure.

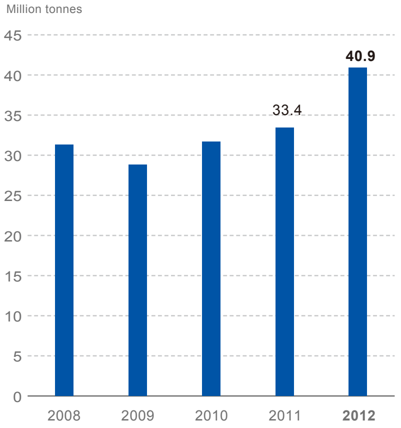
OUR FLEET INVESTMENT, COMPOSITION & DEPLOYMENT

- Backed by customer demand, we expanded our operated fleet to an average of 155 dry bulk ships in 2012 – up from 131 in 2011 – cementing our position as the world's largest operator of high-quality Handysize tonnage with a significant Handymax presence.
- This expansion was primarily due to more chartered-in ships, including several on market-index-linked leases which align our cost base to the market while increasing our fleet scale and the synergies from better ship and cargo combinations. A larger fleet of interchangeable ships enables us to further improve customer satisfaction by increasing our flexibility in voyage timing and frequency as well as our scheduling reliability through ship substitutions in case of delays.
- A better performance in the second half of 2012 was due to a stronger third quarter and partly attributable to improved Handymax results when inward charters were renewed or replaced at lower rates in line with the weak market, gradually reducing the cost of our chartered fleet.

Page 39 & 40
Financial Review
Vessel purchase and lease commitments

- We returned to the ship acquisitions market in September 2012, at which time vessel prices had softened by about 30% compared to the beginning of the year. Initially focused on secondhand ships, we have acquired six Handysize vessels and one Handymax vessel, of which one joined our fleet in fourth quarter 2012 and the balance are scheduled to join in first half 2013. We have also acquired one Handysize newbuilding resale which is due to deliver in May.
- We have also entered into agreements to long-term charter several Handysize ships for periods up to seven years.
- We now await the delivery of 16 owned and five chartered ships (including 17 newbuildings) in 2013 to 2015.

Pacific Basin Cargo Volumes 2008 - 2012



DEEPENING OUR RELATIONSHIPS

- Our two newest chartering offices in Beijing and Durban have now been operational for over a year and have generated new customers, new long-term cargo contracts and new parcelling and project cargo business to supplement our traditional bulk-based activity. Our network of 10 commercial dry bulk offices across six continents allows us to develop and nurture strong customer relationships, and to develop additional cargo opportunities to complement the planned growth of our fleet.

INVESTING IN OUR PEOPLE

- We formalised our dry bulk trainee programme in 2012, and three recruitment intakes in recent months will serve to prepare seven talented young individuals for postings in our Hong Kong, Stamford, Santiago, Melbourne, Auckland and London offices to enhance our strong talent pool in Pacific Basin Dry Bulk.

Page 27
See the story of Harry Stapleton whose journey with Pacific Basin has taken him from a trainee in London in 2006 and a chartering manager in Vancouver to General Manager of our regional office in Santiago.

MARKET OUTLOOK – DRY BULK

⊕ OPPORTUNITIES

- China's continued strong demand for minor bulk commodities
- Global trade imbalances and fleet utilisation inefficiencies stemming from China's dominant share of global bulk imports
- Stronger than anticipated US economic recovery and revived industrialisation in North America
- Fewer newbuilding deliveries as shipyards slow production to stretch out their orderbooks
- Continued high levels of scrapping of dry bulk capacity
- Bank lending constraints limit funding for ship acquisitions, raising barriers to entry and increasing opportunities for shipowners with available cash

⊖ THREATS

- Still excessive albeit reduced overhang of dry bulk vessel supply and excessive shipbuilding capacity
- Global economic recovery negatively impacted by further shocks relating to European finances and US government spending
- Premature shipowner optimism resulting in less scrapping, increased ordering activity and increased vessel prices
- Increased national protectionism impacting raw materials trade
- Potentially weaker growth in Chinese minor bulk imports depending on extent of economic and industrial slow down

OUTLOOK FOR OUR DRY BULK BUSINESS

We expect the dry bulk market to remain weak overall in 2013 with seasonal variations prompting annual lows in the first quarter followed by modest recovery in the second.

Despite continued global economic weakness, dry cargo demand is likely to be similarly healthy as last year.

Supply-side fundamentals are improving, especially in the Handysize segment where we expect substantially no net fleet growth this year. However it will take some time for the market to absorb the over-supply of larger dry bulk ships generated by the newbuilding boom in recent years, and before a sustained recovery becomes apparent.

Conditions overall are likely to remain challenging, thereby generating further vessel acquisition opportunities for shipowners with available cash. However, premature shipowner optimism may result in increased vessel prices thus impacting the availability of attractively priced ships and undermining our key strategic objective for the year.

We remain optimistic about the longer term. We expect high levels of ship scrapping and limited new ship ordering to moderate dry bulk ship supply expansion while demand remains relatively robust as emerging economies continue to industrialise and grow.

STRATEGY

As a highest priority, we will seek further opportunities to invest in high-quality Handysize and Handymax ships to expand our owned fleet.

We aim also to expand our dry bulk customer and cargo portfolio in tandem with our core fleet expansion.

Our exposure to the weak freight market will be partly limited by our cargo book which currently provides cover for 55% of our Handysize revenue days in 2013.

Page 19
Future earnings and cargo cover

We are working on initiatives to further improve our customer service, such as through decentralised operational support and increased customer engagement at a local level to ensure best-in-class service, and to take us a step closer to our industry leadership vision.

We continue to draw on our customer-focused business model, the scale and flexibility of our fleet, our drive for efficiency and our strong balance sheet to ensure we are best positioned to maximise our performance in the current challenging conditions and to capitalise on opportunities and eventual improvements in market conditions.

Towage Market Review 2012

The Australian towage sector in which we mainly operate continued to grow in 2012. Demand for marine logistics from oil and gas construction projects remained strong with a number of LNG projects in various stages of construction. The harbour towage sector demonstrated good growth.

OFFSHORE TOWAGE AND INFRASTRUCTURE SUPPORT

Major Australian oil and gas developments in Western Australia and Queensland continued to drive a surge in demand for offshore marine logistics in 2012. Other North West Shelf LNG projects have also progressed further into their construction stage thus also contributing to growing demand. The Middle East market saw some increase in demand but remains difficult due to excessive supply.

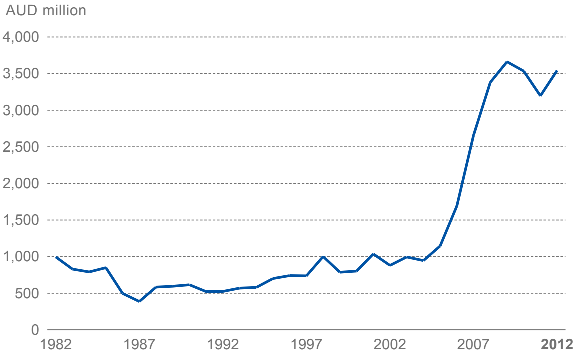
HARBOUR TOWAGE

Australian harbour towage activity in 2012 was supported by increased volumes and market share in the main liner ports as well as by an increase in commodity exports through the bulk ports we serve.

SUPPLY

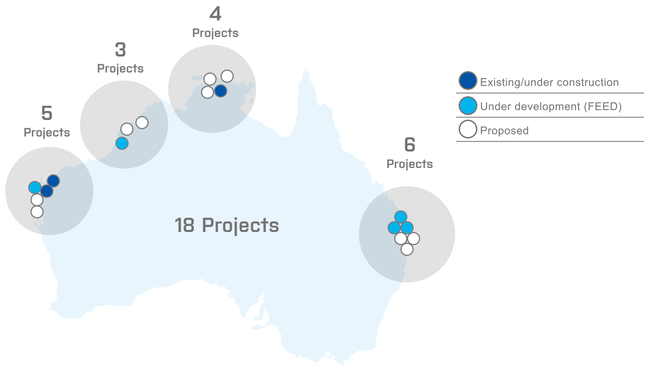
The relatively high cost of operating in Australia continues to represent a barrier to entry for new entrants in the Australian domestic market. However, increased domestic competition was apparent in 2012 as existing operators invested in new vessels. Competition also characterised the market for international tug and barge project transportation into Australia.

O&G Exploration Expenditure in Australia



Source: Australian Department of Statistics, data as at September 2012

Australia LNG Projects



Source: BG Group data: public reports, Wood Mackenzie

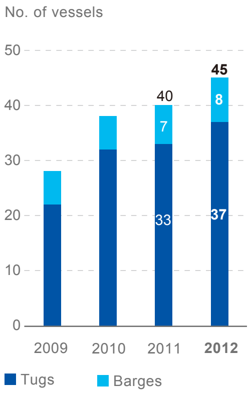
PB Towage
How we performed in 2012

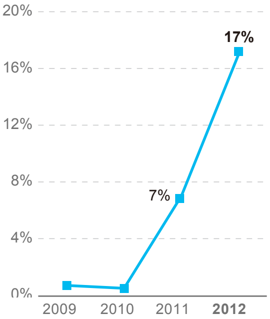
Our PB Towage division generated a net profit of US$37.7 million reflecting our increasingly competitive position in the offshore support and harbour towage markets in Australasia.

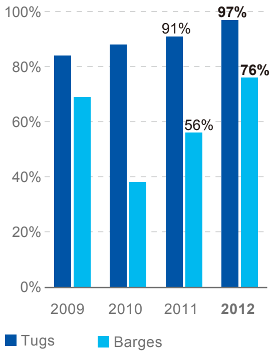
PB Towage net profit	Operating cash flow
US$37.7m	US$52.1m

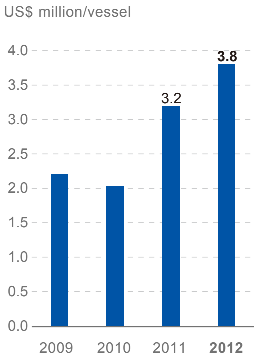
KEY PERFORMANCE INDICATORS

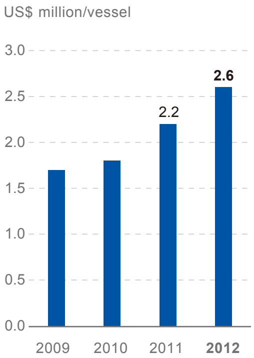
Number of Vessels Operated	Return on Net Assets	Percentage of Fleet Deployed	Vessel Revenue	Vessel Costs
45 vessels	17%	97%	US$3.8m	US$2.6m
average		tug fleet	per vessel	per vessel
↑13%	↑11%	↑6%	↑19%	↑18%











PERFORMANCE

We deployed two additional chartered-in tugs in Western Australia and an average of three additional chartered-in vessels in Queensland and elsewhere in Australasia, increasing to 45 the average number of towage vessels we operated in 2012

Improved profits generated a return on net assets of 17% reflecting strong asset utilisation and more chartered-in vessels to supplement our owned assets

Utilisation of our deployed tug fleet increased to 97% on growth in harbour jobs and long-term charters for offshore project work. Barge utilisation increased to 76% due to additional longer term charters in Gladstone and the Middle East

Our fleet of deployed tugs and barges generated average revenue of US$3.8 million per vessel in 2012 on increased vessel utilisation and job numbers

Our vessel costs averaged US$2.6 million reflecting the cost of additional chartered-in vessels and normal inflationary increases in vessel operating costs

PB Towage Business Highlights

PB Towage results have continued to strengthen due to improved market conditions and our increased market presence and penetration.

INCREASED OFFSHORE TOWAGE AND SUPPORT ACTIVITY IN AUSTRALASIA

The offshore energy infrastructure sector has been the main growth driver for PB Towage over recent years, and our 2012 highlights include:

- increased involvement in the West Australian offshore gas sector principally through our OMSA joint venture, with one repositioned owned tug and two additional chartered-in tugs deployed in Western Australia;
- continued support to construction work on two projects in Gladstone, Queensland, where we deployed an average of two additional vessels; and
- formation of a marketing alliance with US-based Crowley Solutions allowing the two companies to combine their capabilities and jointly target marine logistics projects in South East Asia and Oceania.

GROWTH IN HARBOUR TOWAGE MARKETS

Our harbour towage business showed improved results on an 11% increase in tug jobs reflecting market growth and our expanded market share.

We have entered a cooperation agreement with European-based Boluda Towage and Salvage to target LNG terminal towage opportunities combining Boluda's LNG terminal experience and PB Towage's local expertise.

We have recently finalised plans to open a harbour towage operation in the port of Newcastle in the middle of 2013.

CHALLENGING TOWAGE ENVIRONMENT IN THE MIDDLE EAST

Despite some improvement in the general towage segment in the Middle East, this market remains challenging due to an oversupply. PB Towage has nevertheless maintained good utilisation of its Middle East assets.

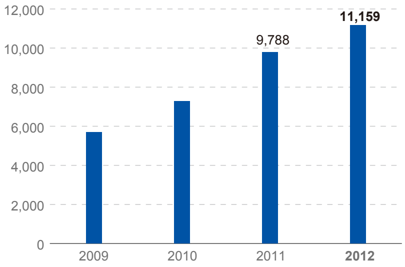
SALVAGE SUPPORT

Our tugs and barges have been called on to assist distressed vessels on the Australasian coast and were involved in supporting the salvors of the "Rena" in the initial phase of her salvage operation.

ORGANISATION STRENGTHENING INITIATIVES

We expanded our PB Towage team in 2012 to meet the operational needs of our customers and the growth in our business volume.

PB Towage Harbour Job Numbers



MARKET OUTLOOK – TOWAGE

OPPORTUNITIES

- Growing project activity in Australasia and related demand for transportation of project cargoes and construction support both domestically in Australia and internationally
- Increased exploration and production leading to demand for platform support services
- Continued growth in Australian bulk export volumes offering scope for increased harbour towage jobs in bulk ports
- International transportation into Australia driving increased harbour towage jobs in container ports

THREATS

- Hesitation in global economic recovery – and especially a Chinese slowdown – impacting Australian port activity
- Labour market shortages and cost pressures
- Exchange rate movements affecting Australia's global competitiveness

OUTLOOK FOR OUR TOWAGE BUSINESS

PB Towage has established itself as a safe and quality-conscious operator with a strong customer base in both harbour and offshore project towage sectors. We consider PB Towage to be well positioned competitively to participate in the opportunities in these sectors as the market develops further in Australia and internationally.

PB Towage has delivered increasingly profitable results since we diversified into this business and is expected to continue to be an important contributor to the Group's results in 2013.

STRATEGY

We believe PB Towage has the capacity to expand. Offshore development activity and increasing bulk port volumes are expected to provide opportunities for growth, and they therefore represent the main focus of our towage operations in 2013.

PB RoRo Business Highlights

Now considered a discontinued operation, our PB RoRo business generated a segment net loss of US$12.1 million in 2012 (2011: US$10.6 million loss) and an impairment and exchange loss of US$198.6 million reflecting the severe weakness in the Euro-centric RoRo sector.

RoRo segment net loss

US$(12.1)m

Operating cash flow

US$3.1m

BUSINESS HIGHLIGHTS

Our RoRo business was primarily focused on three key objectives in 2012: i) to secure best possible charters and improve utilisation; ii) to implement stringent cost control and rationalise our RoRo operation; and iii) to generate opportunities to exit the sector in an economically rational manner.

CHANGE IN RORO STRATEGY

Our strategic priorities for PB RoRo took a major turn in 2012 after a reassessment of the prospects for our RoRo business in the middle of the year resulted in a significant non-cash impairment charge of US$190.4 million and a decision to exit the sector in the medium term.

RORO MANAGEMENT RATIONALISATION

In view of our downgraded outlook and the resulting changes in the Group's RoRo strategy, our Meridian RoRo management joint venture was wound down, we brought the commercial and operational management functions in-house and we outsourced technical management to an experienced third-party ship manager.

AGREEMENT REACHED TO EXIT RORO

In September, we agreed to sell all of our six RoRo ships to the Grimaldi Group with forward delivery and with the buyer chartering the vessels on a bareboat basis in the intervening period. Under the sale agreement, the buyer is required to purchase at least one of the vessels by the end of June 2013, followed by at least one vessel in each 6-month period thereafter until the end of 2015.

Our small in-house PB RoRo team worked hard on securing this definite exit from the sector, and will continue overseeing the technical management and commercial employment of our final RoRo vessel prior to its delivery onto Grimaldi's bareboat charter.

EMPLOYMENT

Our two RoRo ships previously in lay-up in the United Kingdom delivered onto their bareboat charters in October 2012, and the three ships previously trading in the North Sea and Caribbean delivered onto their bareboat charters in February 2013. Our sixth ship has been extended for another year under charter in the Mediterranean after which she is due to enter the buyer's bareboat chartered fleet in March 2014. Our RoRo fleet recorded 68% utilisation in 2012 with its ships on charter for 1,490 out of a total 2,190 ship revenue days.

FINANCING

We converted our existing EUR 162 million, 12-year RoRo loan facility to a dry bulk loan facility of approximately US$210 million, thus further enhancing our dry bulk vessel buying power.

OUTLOOK FOR OUR RORO BUSINESS

Continued weakness is expected to persist in the RoRo charter market in 2013. However, with the exception of the time and cost of repositioning two vessels from the Caribbean to the Mediterranean, our RoRo disposal agreement substantially eliminates our exposure in the RoRo charter market in 2013 and beyond.

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See Financial Review for a description of the financial impact of the RoRo disposal transaction

Our People

Customer focus priority

Our chartering team is our sales force, and our principal focus comes from the genuine belief that investment in long-term relationships with customers far outweighs any opportunity to make short-term gains. As a result, my chartering colleagues and I are located across 10 commercial offices around the world giving us an in-depth knowledge of our customers' businesses and their needs, as well as an ability to offer a personal service and localised support 24/7.

Being in the same city or time zone as our customers allows us to sit with them on a regular basis before and after concluding freight contracts, both on a spot or long-term contract (COA) basis. COAs often develop from growing our reputation in spot trades with a customer and meeting them to discuss proactive solutions to their long-term freight requirements.

Another important theme is flexibility. Twice in recent months, our Santiago office facilitated the changing of vessels assigned to a trade in order to satisfy a customer's preference for a larger ship even though we would have been within our contractual rights to present the smaller ships.

We understand our customers have different and changing requirements and so we strive to deliver above and beyond what is simply in the contract. In good and bad freight markets, our mission remains the same – to fulfil our customers' expectations as an absolute priority.

Harry Stapleton

General Manager
Pacific Basin Dry Bulk, Santiago, Chile

Financial Review

Group net loss
US$(158)m in 2012

Underlying profit
US$48m

Shareholders' equity
(11%) return

Operating cash flow remained positive at
US$149m

Financial Highlights 2012

- very weak dry bulk market spot rates had the largest negative influence on our underlying performance, although contract cover continued to curb volatility in our earnings
- a reassessment of prospects for our RoRo business resulted in a US$190.4 million non-cash write-off
- the subsequent sale of our RoRo vessels also resulted in a US$8.2 million non-cash exchange loss
- continued growth of PB Towage delivered a strong contribution
- US$149 million of positive operating cash flow, underpinned by our still profitable dry bulk segment despite the difficult market environment

The Group maintains a strong cash position and a balance sheet that enables us to actively participate in the next stage of the shipping cycle. Our liquidity is a key priority ensuring:

- we are well placed to grow our owned fleet by investing in further vessels beyond our existing capital commitments
- we comply with our loan-to-value bank covenants while low vessel values prevail

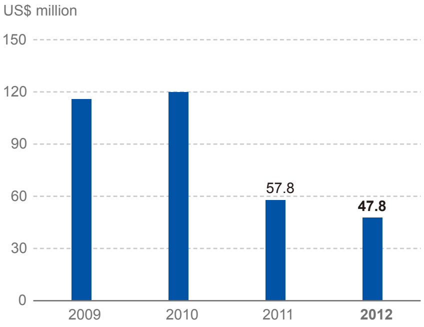
Monitoring the Health of our Group

GROUP KEY PERFORMANCE INDICATORS

Underlying Profit

US$47.8m

↓17%



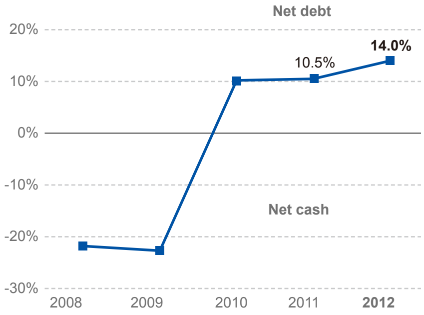
PERFORMANCE

Underlying profit decreased 17% mainly due to i) a 23% decrease in daily charter earnings of our Handysize vessels, offset in part by 11% lower blended daily vessel operating costs, and ii) a strong US$37.7 million contribution from PB Towage.

Net borrowings to Net Book Value of property, plant and equipment

14%

↑3.5%

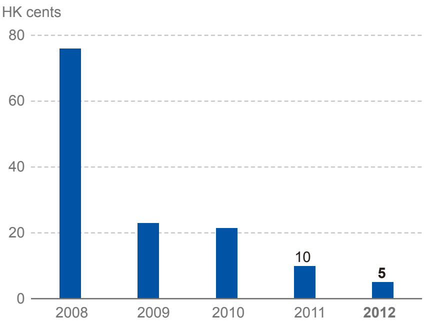


14.0% remains well below our net gearing limit of no greater than 50%. This is due to our continued substantial cash resources offsetting our gross debt obligations.

Dividend per Share

HK¢5 Full Year

↓50%



Dividend per share was down 50% due to the decrease in profit eligible for dividends, which was impacted by the RoRo impairment and difficult dry bulk market. However, our strong operating cash flow justifies a proposed final dividend above our policy minimum of 50% of attributable profits.

Consolidated Group Performance

GROUP PERFORMANCE REVIEW

US$ Million	2012	2011	Change
Revenue	1,443.1	1,312.8	+10%
Direct costs	(1,361.2)	(1,204.4)	-13%
Gross profit	81.9	108.4	-24%
Segment net profit	74.5	89.5	-17%
Treasury	(6.1)	(12.8)	+53%
Discontinued operations – RoRo	(12.1)	(10.6)	-14%
Indirect general and administrative expenses	(8.5)	(8.3)	-2%
Underlying profit	47.8	57.8	-17%
Unrealised derivative expenses	(3.3)	(1.6)	-106%
RoRo vessel impairment & exchange loss	(198.6)	(80.0)	-148%
Other impairments	(4.4)	–	-100%
Gain from sale of shares in Green Dragon Gas	–	55.8	-100%
(Loss)/profit attributable to shareholders	(158.5)	32.0	-595%
Operating cash inflow	148.7	159.4	-7%
EBITDA (excluding impairments)	145.1	218.7	-34%
Net profit margin	-11%	2%	-13%
Return on average equity employed	-11%	2%	-13%

The main influences on our results in 2012 were as follows:

- **Revenue** increased 10% due to 21% increase in our Handysize and Handymax revenue days.
- **Direct costs** increased 13% due to increases in bunkers and port disbursements attributable to the additional Handysize and Handymax revenue days.
- **Segment net profit** was down due to i) a 23% decrease in daily charter rates of our Handysize vessels, offset in part by 11% lower blended daily vessel costs, and ii) a strong US$37.7 million contribution from PB Towage.
- **Treasury costs** reduced 53% due to increased interest capitalised on undelivered newbuild vessels and increased interest income on higher cash balance.
- **Underlying profit** was down due to decreased segment net profits and an increased loss from the discontinued RoRo operations in the difficult RoRo market.
- **Loss attributable to shareholders** arose due to a US$190.4 million impairment and US$8.2 million exchange loss, both in relation to our RoRo vessels.
- **Operating cash inflow** was US$148.7 million (2011: US$159.4 million). Combined with capex and net debt flows, this resulted in Group cash and deposits at the year end of US$753.5 million (2011: US$618.2 million).

Segments

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

- Pacific Basin Dry Bulk
- PB Towage

Non-segment activities mainly comprise:

- Treasury
- PB RoRo, which is reclassified as a discontinued operation following the vessel sales in September 2012

Underlying profit

Includes:

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

Excludes:

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

Page 100
See Financial Statement Note 5 for more on general and administration expenses and other expenses

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See Financial Statements Note 4 for more on balance sheet segment information

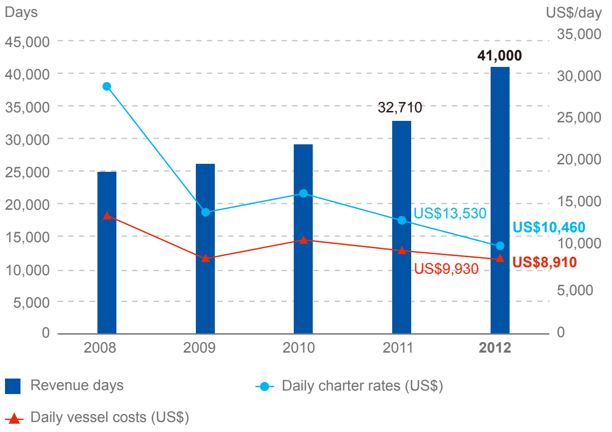
PACIFIC BASIN DRY BULK SEGMENT

Segment Operating Performance

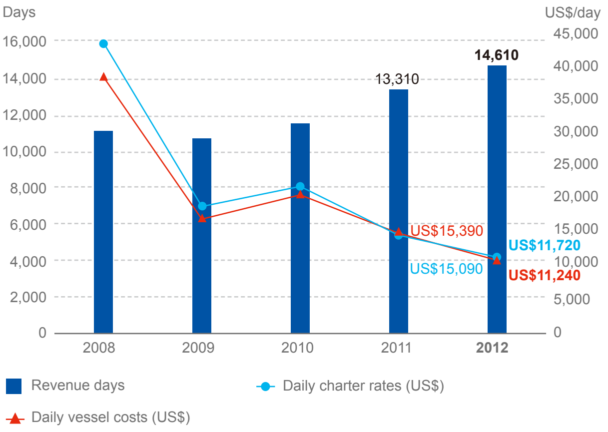
US$ Million	1H12	2H12	2012	2011	Change
Handysize contribution	22.8	39.2	62.0	115.2	-46%
Handymax contribution	(1.4)	8.1	6.7	(4.7)	+243%
Post-Panamax contribution	2.8	3.1	5.9	3.0	+97%
Segment operating performance before overheads	24.2	50.4	74.6	113.5	-34%
Direct overheads	(16.7)	(18.6)	(35.3)	(32.1)	-10%
Segment net profit	7.5	31.8	39.3	81.4	-52%
Segment operating cash inflow	38.1	76.0	114.1	138.1	-17%
Segment net assets	767.5	855.3	855.3	700.1	+22%
Return on net assets (%)	2%	7%	5%	11%	-6%

Dry bulk net profit decreased 51.7% to US$39.3 million (2011: US$81.4 million) as the dry bulk freight market suffered from over-supply and remained depressed throughout 2012. However, our second half performance recovered from a weak first half due to stronger TCE earnings coupled with reducing fleet costs as expensive inward charters expired or were renewed at lower hire rates during the year.

Handysize Performance



Handymax Performance

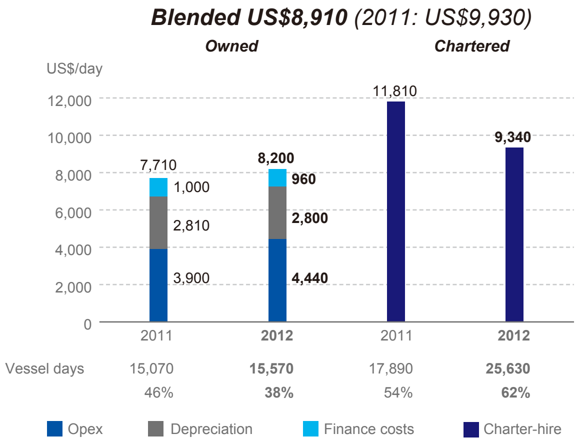


Revenue generated by our expanded dry bulk fleet increased 8.2% to US$1,292.4 million (2011: US$1,195.0 million) which represents 89.6% (2011: 91.0%) of our Group's total revenue.

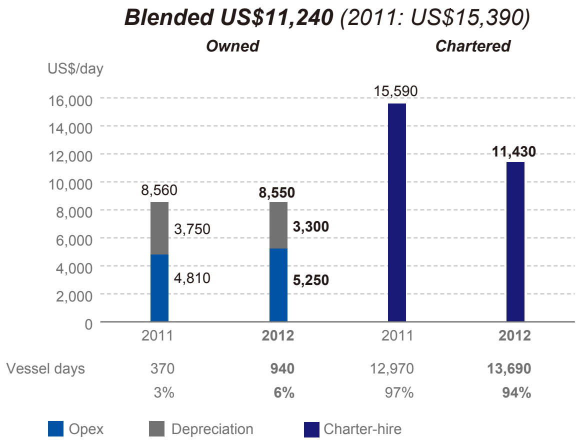
This year saw a substantial growth in the scale of our Handysize and Handymax operations. Handysize revenue days increased 25.3% to 41,000 days (2011: 32,710 days) while Handymax revenue days increased 9.8% to 14,610 days (2011: 13,310 days). This increase was due to the increased number of vessels chartered in on a short term basis.

Daily charter rates for both our Handysize and Handymax vessels were lower than in 2011 due to the continued oversupply of vessels in the global market.

Handysize Daily Vessel Costs



Handymax Daily Vessel Costs



Our dry bulk fleet incurred direct costs (including bunkers and port disbursements) of US$1,238.2 million (2011: US$1,098.5 million) representing 91.0% (2011: 91.2%) of total direct costs.

The depressed market's negative impact on our dry bulk segment net profit was somewhat mitigated by an increase in our spot market operating activities using chartered third-party vessels at lower daily charter rates, hence reducing our blended daily costs.

The reduction in chartered-in costs was the main contributor to the reduction in blended daily costs by 10.3% for Handysize and by 27.0% for Handymax vessels. However, daily opex costs for Handysize vessels increased by 13.8% and for Handymax vessels increased by 9.1% due to increased crew wages and travel costs, and higher maintenance costs.

In 2012, we operated 3,850 Handysize vessel days (2011: 670 days) and 1,870 Handymax vessel days (2011: 780 days) on variable chartered-in rates, linked to the Baltic Handysize Index and Baltic Supramax Index.

In 2012, our Handysize chartered-in days increased 43.3% to 25,630 days (2011: 17,890 days) while our Handymax chartered-in days increased 5.6% to 13,690 days (2011: 12,970 days). Chartered days represented 62.2% and 93.6% of our total Handysize and Handymax vessel days respectively, an increase of 7.9% and a decrease of 3.7% year on year respectively.

Our fleet of owned and finance leased dry bulk vessels experienced an average 1.6 days off-hire (2011: 1.2 days) per vessel during the year.

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See Financial Statement Note 4
for more on dry bulk segment analysis

PB TOWAGE SEGMENT

Segment Operating Performance

US$ Million	1H12	2H12	2012	2011	Change
Offshore & Infrastructure projects	15.2	24.2	39.4	25.6	+54%
Harbour towage	6.4	8.2	14.6	8.2	+78%
Middle East & others	0.5	0.8	1.3	(1.5)	+187%
Segment operating performance before overheads	22.1	33.2	55.3	32.3	+71%
Direct overheads	(8.0)	(9.6)	(17.6)	(17.1)	-3%
Segment net profit	14.1	23.6	37.7	15.2	+148%
Segment operating cash inflow	18.9	33.2	52.1	28.4	+83%
Segment net assets	244.6	217.9	217.9	231.8	-6%
Return on net assets (%)	12%	22%	17%	7%	+11%

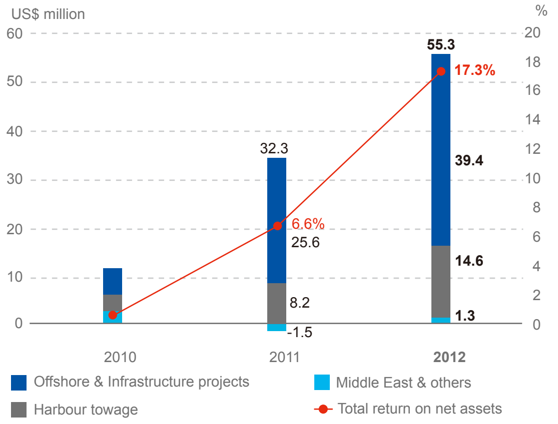
Results from offshore and infrastructure projects improved due to the development of new and expansion of existing projects in the offshore business and consequent increased demand for offshore tugs and barges.

Harbour towage results improved due to increased port calls at Australian container ports.

The Segment's EBITDA (before impairments) amounted to US$53.4 million (2011: US$36.0 million) for the year, which was in line with the operating cash flow.

Page 97
See Financial Statement Note 4
for more on towage segment analysis

Towage Segment Operating Performance before Overheads



DISCONTINUED OPERATIONS – PB RORO

Operating Performance

US$ Million	1H12	2H12	2012	2011	Change
PB RoRo operating results	(8.5)	(3.6)	(12.1)	(10.6)	-15%
RoRo vessel impairment	(190.0)	(0.4)	(190.4)	(80.0)	-138%
RoRo vessel exchange loss	–	(8.2)	(8.2)	–	-100%
	(190.0)	(8.6)	(198.6)	(80.0)	-148%
Net loss	(198.5)	(12.2)	(210.7)	(90.6)	-133%
Operating cash flow	(0.8)	3.9	3.1	9.8	-59%
Net assets	135.6	127.2	127.2	322.9	-61%

Due to the RoRo market challenges and the consequent downgrade in our RoRo earnings and business outlook, a non-cash impairment charge of US$190.4 million was reflected in the results.

On 6 September 2012, all of our six RoRo vessels were sold for an aggregate consideration of €153 million. The buyer is obliged to purchase at least one vessel by the end of each of the six month periods ending 30 June 2013 through 31 December 2015.

Simultaneously with the signing of the sale agreements, the Group signed bareboat charterparties to charter the vessels to the buyer at agreed charter rates. These charters expire with the purchase and delivery of the vessels to the buyer. The bareboat charters for two vessels commenced in October 2012 and for three vessels commenced in February 2013. The Group expects the bareboat charter of the final vessel to commence in March 2014.

On the date of the sale agreements, the vessels' carrying values were reclassified in the balance sheet as assets held for sale. At the bareboat charter commencement date, the value of assets held for sale of each of the vessels are de-recognised from the balance sheet and corresponding trade receivables recognised in the balance sheet representing the present value of the sale proceeds and charter-hire receipts. At 31 December 2012, the six RoRo vessels had a combined asset value of US$187.8 million, represented by two RoRo vessels on bareboat charter with a value of US$59.7 million shown in other receivables under Treasury, and four RoRo vessels with a value of US$128.1 million shown in assets held for sale under discontinued operations – RoRo. The difference between the gross receivables and the present value of the receivables is recognised as interest income reflecting the time value of money over the periods of the bareboat charters and until the expected date of settlement of the sale consideration by the buyer. The bareboat interest income of US$0.7 million in 2012 is shown under Treasury.

The Group maintains a foreign exchange reserve for the translation to US Dollars of the Euro-denominated net asset value of the vessel owning companies. Each vessel disposal will result in the release of the cumulative foreign exchange reserve relating to each vessel owning company to the consolidated income statement at the bareboat commencement date. The amount realised in 2012 was US$8.2 million.

The current estimated future financial effect of the RoRo disposal transaction is as follows:

US$ Million	2013	2014	2015
Interest Income – Treasury	7.5	6.1	2.8
Exchange Losses – Unallocated	(8.3)	(5.0)	–
Total	(0.8)	1.1	2.8

Note: The exchange losses relate to the foreign exchange reserve for the translation to US Dollars of the Euro-denominated net asset value of the RoRo companies. Such cumulative foreign exchange reserve will be released to the consolidated income statement at the bareboat commencement dates. The estimated Euro-denominated interest income is translated into US Dollars at the 2012 year-end rate of EUR 1 to US$ 1.3231.

Funding and Commitments

CASH FLOW AND CASH

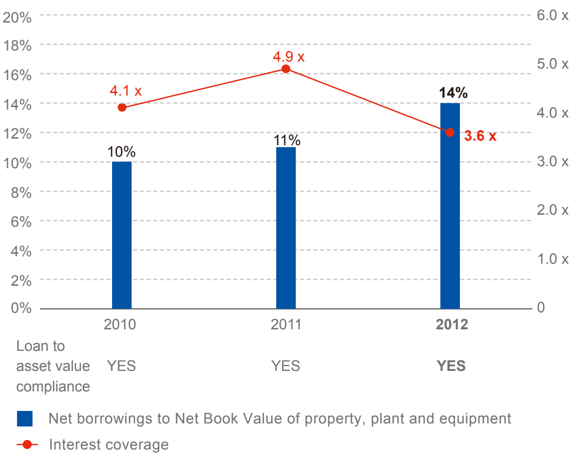
The Group's four main sources of capital are equity, convertible bonds, bank loans and operating cash flows.

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

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

As at 31 December 2012, the Group had a strong cash position of US$753.5 million resulting in a 14.0% net gearing ratio. The Group has sufficient cash resources on hand to fund its capital commitments at 31 December 2012 of US$235.9 million.

Net Borrowings to NBV and Interest Coverage

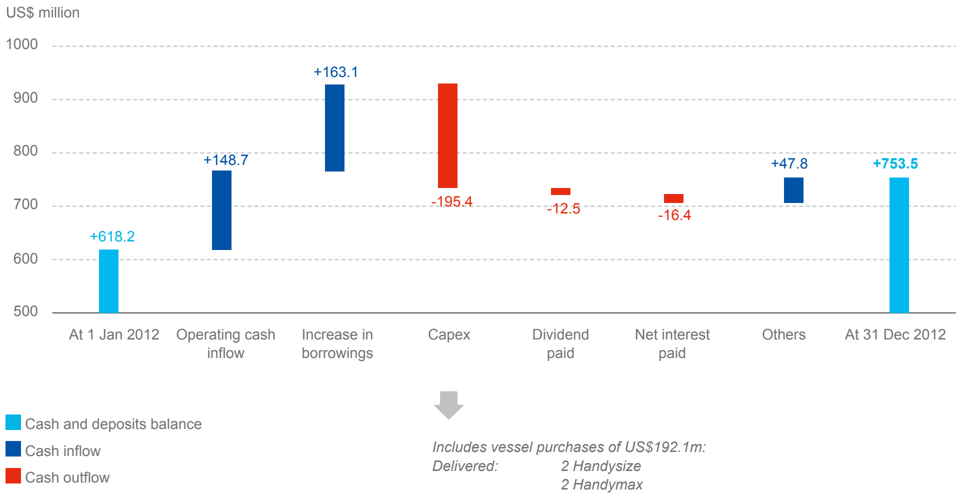


Cash Flow

The major factors influencing future cash balances are expected to be operating cash flows, purchases of dry bulk vessels, sale of assets, and drawdown and repayment of borrowings.

Liquidity	US$753.5 million of total cash and deposits (principally denominated in US$) US$6.9 million of unutilised bank borrowing facilities
Net working capital	US$759.6 million

2012 Sources and Uses of Group Cash Flow



Includes vessel purchases of US$192.1m:

Delivered:	*2 Handysize* *2 Handymax* *1 RoRo*
Instalments:	*13 dry bulk vessels*

Cash and Deposits

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

Treasury enhances Group income through investing in a mix of financial products, based on the perceived balance of risk, return and liquidity, while ensuring that cash can be readily deployed to meet the Group's commitments and needs.

Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong. Restricted bank deposits relate to i) additional collateral pledged to maintain dry bulk bank lending covenants and ii) guarantees issued for offshore and infrastructure projects in the Towage segment.

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

US$ Million	2012	2011	Change
Restricted bank deposits - non-current	50.2	8.6	
Restricted bank deposits - current	70.2	11.2	
Cash and deposits	633.1	598.4	
Total cash and deposits	**753.5**	618.2	+22%
Current portion of long term borrowings	(77.8)	(65.3)	
Long term borrowings	(853.7)	(713.7)	
Total borrowings	**(931.5)**	(779.0)	-20%
Net borrowings	(178.0)	(160.8)	-11%
Net borrowings to Net Book Value of property, plant and equipment	14.0%	10.5%	
Net borrowings to shareholders' equity	13.4%	10.8%	

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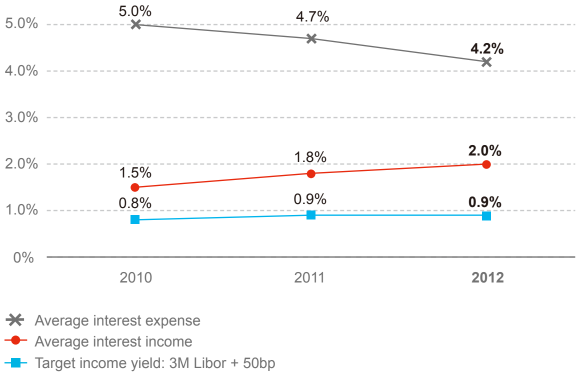
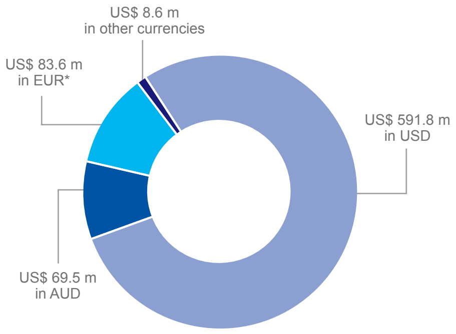
See Financial Statement Note 4 for more on treasury information in the income statement

During the year, Treasury achieved 2.0% return on the Group's cash. Interest income is benchmarked against a target yield of 50 basis points above 3 month US Dollar LIBOR.

Interest Rates and Benchmark Income



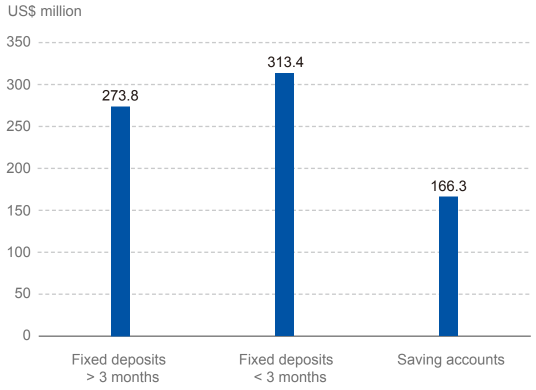
US$ Value of Currencies at 31 December 2012



* *US$79.6 million in EUR is hedged to USD*

At 31 December 2012, the Group's US$753.5 million total cash and deposits were placed in the following investment products:

Cash and Deposits Investments



BORROWINGS

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

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

The aggregate borrowings of the Group amounted to US$931.5 million (2011: US$779.0 million). They are principally denominated in United States Dollars, except for bank loans equivalent to US$31.1 million (2011: US$34.4 million) which are denominated in Australian Dollars.

Bank Borrowings

Bank borrowings (net of deferred loan arrangement fees) were US$465.1 million (2011: US$405.5 million) at 31 December 2012, having increased as loans secured on Handysize vessels were drawndown during the year.

Bank borrowings are in the functional currency of the business segment to which they relate. Subsequent to the sale of our RoRo vessels, the existing EUR162 million, 12-year RoRo loan facility was converted to a dry bulk loan facility of approximately US$210 million, thus further enhancing our dry bulk vessel buying power.

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

As at 31 December 2012:

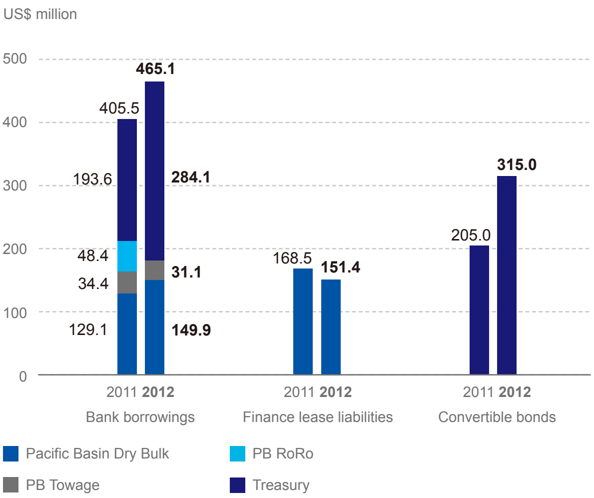
i) The Group's bank borrowings were secured by mortgages over 45 vessels with a total net book value of US$695.6 million and an assignment of earnings and insurances in respect of these vessels. The Group had 42 unmortgaged vessels with a total net book value of US$383.2 million.

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

iii) The Group had unutilised bank borrowing facilities of US$6.9 million.

P/L impact: The decrease of US$3.5 million in interest on bank borrowings (after capitalisation) to US$10.6 million was mainly due to an increase in interests capitalised to undelivered newbuild vessels from US$1.3 million to US$3.6 million. Bank borrowings are subject to floating interest rates but the Group manages these exposures by way of entering into interest rate swap contracts.

Borrowings by Source and Segment



Finance Lease Liabilities

Finance lease liabilities decreased following scheduled repayments during the year. Finance lease liabilities are allocated to the segment in which assets are owned.

Aggregate current and long term finance lease liabilities at 31 December 2012 were US$151.4 million (2011: US$168.5 million) relating to 13 Handysize vessels whose bareboat charters expire between 2015 and 2017. The fixed, equal, quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities on the balance sheet and finance charges in the income statement. Finance charges can be expressed as interest rates, fixed for the period of the leases.

P/L impact: Finance charges of US$11.1 million (2011: US$12.1 million) represent interest payments on the Handysize vessels under finance leases.

Convertible Bonds

In September 2012, the Group issued convertible bonds of US$123.8 million with 1.875% per annum coupon maturing in 2018. The new bonds are convertible into ordinary shares of the Company at a current conversion price of HK$4.96.

The debt components of the Group's 1.75% p.a. coupon April 2016 convertible bonds and 1.875% p.a. coupon October 2018 convertible bonds were US$315.0 million (2011: US$205.0 million) at 31 December 2012.

P/L impact: The US$10.6 million interest expense of the convertible bonds is calculated at an effective interest rate of 4.8%.

FINANCE COSTS

Total finance costs of US$40.1 million (2011: US$44.2 million) comprised finance costs from continued operations of US$36.0 million (2011: US$41.6 million) and finance costs from discontinued RoRo operation of US$4.1 million (2011: US$2.6 million).

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

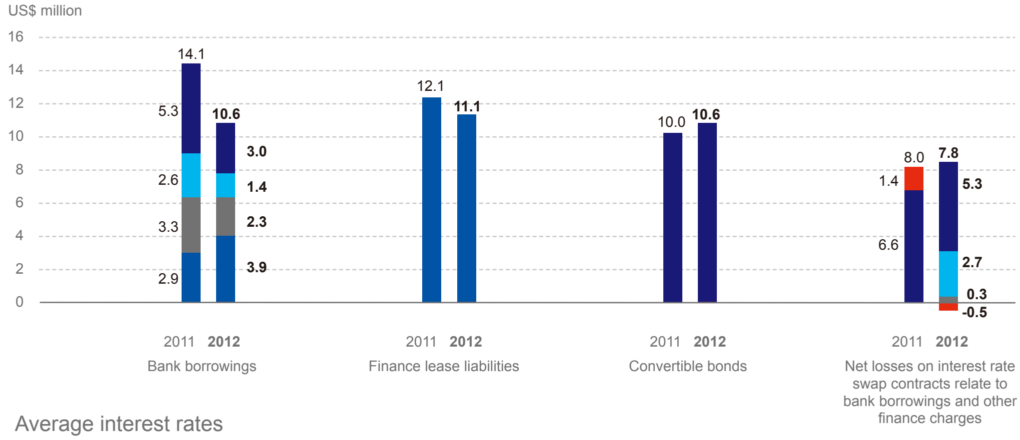
- Average interest rates for the sources of borrowings (See "Finance Costs by Source and Segment" below)

	2012	2011
• Group Interest Coverage	**3.6x**	4.9x

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

The Group aims to achieve a balance between floating and fixed interest rates on its long term borrowings, using interest rate swap contracts where appropriate. As at 31 December 2012, 8% of the Group's long term borrowings were subject to floating rates. The Group monitors this to maintain an appropriate floating to fixed interest rate ratio which is adjusted from time to time depending on the shipping and interest rate cycles.

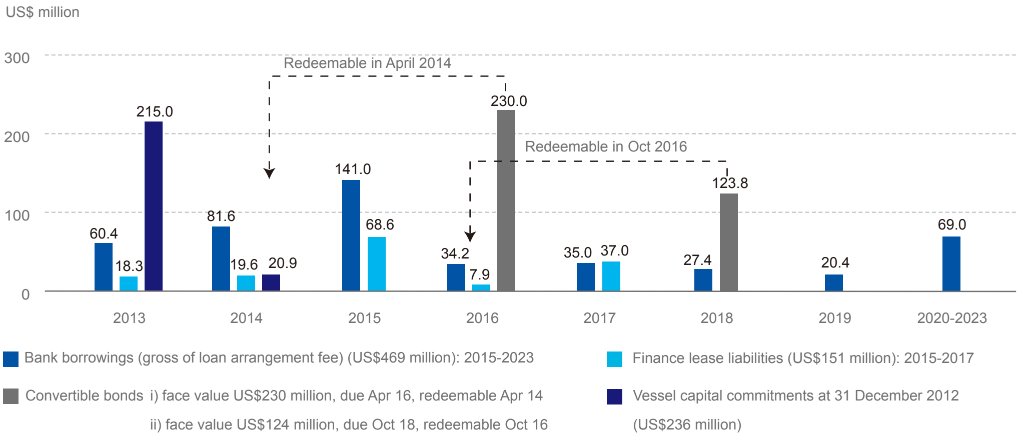
Finance Costs by Source and Segment



Average interest rates						
Profit & loss	2.7%	**2.8%**	6.8%	**6.8%**	4.8%	**4.8%**
Cash	2.7%	**2.8%**	6.8%	**6.8%**	1.8%	**1.9%**

🟦 Pacific Basin Dry Bulk ⬛ PB Towage 🟦 PB RoRo ⬛ Treasury 🟥 Unrealised interest rate swap contract results

Schedule of Repayments and Vessel Capital Commitments



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See Financial Statement Note 22(c) for the terms and details of two Convertible Bonds

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Vessel Commitments

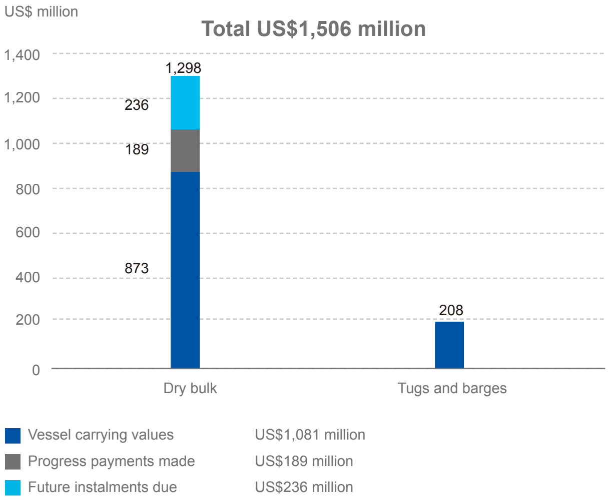
DELIVERED VESSELS

At 31 December 2012, the Group had property, plant and equipment with a net book value (after RoRo impairment) of US$1,270.2 million, related to the following delivered vessels:

		Number	Average net book value (US$ Million)
Dry Bulk	Handysize	44	16.6
Dry Bulk	Handymax	4	22.9
Dry Bulk	Post-Panamax	1	53.3
Towage	Tugs & Barges	38	5.4

Handysize vessels continued to dominate the Group's assets with an average age of 8.4 years for the delivered owned vessels. Tugs and barges are denominated in their functional currencies of the Australian Dollar, and hence their US Dollar carrying values and commitments are subject to exchange rate fluctuations.

A Combined View of Vessel Carrying Values and Vessel Commitments at 31 December 2012



VESSEL COMMITMENTS

As at 31 December 2012, the Group had non-cancellable vessel commitments of US$201.2 million and authorised commitments of US$34.7 million. This reflects the cost of the eight dry bulk vessels purchased since September 2012 for US$121.8 million. The vessels are scheduled to deliver to the Group between January 2013 and January 2014 as shown in the table.

US$ Million	**Number**	**2013**	**2014**	**Total**
Contracted commitments				
Handysize vessels	10	78.2	20.9	99.1
Handymax vessels	5	102.1	–	102.1
	15	180.3	20.9	201.2
Authorised commitments				
Handysize vessels	2	34.7	–	34.7
Commitments at 31 December 2012	17	215.0	20.9	235.9
Changes to commitments after the year end				
Handysize vessels	(2)	(12.0)	–	(12.0)
Handymax vessel	1	12.4	–	12.4
Total commitments at 25 February 2013	**16**	**215.4**	**20.9**	**236.3**

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

VESSEL PURCHASE OPTIONS

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

Earliest year in which options may be exercised	**Vessel type**	**Number of vessels at 31 December 2012**		**Average age of vessels** (years)	**Average purchase option exercise price**[1] (US$ Million)
		Finance lease	**Operating lease**		
2013	Handysize	13	3	10	13.7
	Tug & barge	–	5	4	4.1
2016	Handysize	–	2	5	35.7
	Handymax	–	1	5	30.0
	Post-Panamax	–	1	5	61.8
2017	Handysize	–	1	5	30.2
2021	Handysize	–	2	7	33.3
Total		13	15		

Note 1: Includes certain purchase options priced in Japanese Yen.

Estimated fair market values published by Clarksons are US$17.0 million and US$18.5 million for 5 year old 32,000 dwt Handysize and 56,000 dwt Handymax vessels respectively.

VESSEL LEASE COMMITMENTS

The following table shows the average contracted daily charter rates and total number of vessel days remaining for our Handysize and Handymax vessels chartered in under operating leases and finance leases in each year of the lease term, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements.

Handysize and Handymax Vessel Lease Commitments

	Handysize Operating leases		**Handysize Finance leases**		**Handymax Operating leases**	
Year	**Average daily rate** (US$)	**Vessel days**	**Average daily rate** (US$)	**Vessel days**	**Average daily rate** (US$)	**Vessel days**
2013	9,460	9,380	5,950	4,750	11,510	3,500
2014	10,710	6,270	5,940	4,750	13,720	1,360
2015	10,800	5,700	5,910	2,590	14,500	780
2016	10,660	4,310	5,970	1,830	14,650	730
2017	10,710	3,960	5,840	610	14,650	730
2018	10,810	3,290	–	–	14,780	730
2019	11,150	2,640	–	–	14,790	730
2020	12,920	1,120	–	–	14,900	730
2021	14,000	310	–	–	15,120	20
Total		36,980		14,530		9,310
Aggregate operating lease commitments		US$389.9m				US$124.5m

Vessel operating lease commitments stood at US$573.2 million (2011: US$573.4 million), comprising: US$389.9 million for Handysize; US$124.5 million for Handymax; US$55.8 million for Post-Panamax vessels; and US$3.0 million for tugs. Operating lease commitments remained largely unchanged as lower charter rates for chartered-in Handysize and Handymax vessels were offset by the increase in the number of charter days. Our Handysize operating lease committed days increased 11.1% to 36,980 days (2011: 33,300 days) while our Handymax operating lease committed days increased 2.8% to 9,310 days (2011: 9,060 days).

Vessel finance lease commitments are included as part of property, plant and equipment.

In addition to the above, there are vessel operating lease commitments that are on variable charter rates, linked to the Baltic Handysize Index for Handysize vessels and the Baltic Supramax Index for Handymax vessels.

Handysize and Handymax Index-Linked Vessel Lease Commitments

Year	**Handysize Vessel days**	**Handymax Vessel days**
2013	7,970	1,270
2014	3,400	180
2015	1,080	–
Total	12,450	1,450

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Future earnings and cargo cover

Our People

Enthusiasm and dedication

Our global Human Resources (HR) and Administration function is the Company's internal service centre. We service the HR needs of the overall organisation through our roles in recruiting and retaining employees whose skills are aligned with their jobs, finding the right balance between staffing costs and productivity, implementing HR policies and processes, and spotting issues ahead of time and helping managers address them.

However, my team's more routine focus is in providing our 320 internal customers – our senior managers, line managers and employees – with the responsive, proactive and professional support they need to be healthy, happy and productive members of the Pacific Basin team. Pacific Basin staff spend over half their daily lives living and working in our offices around the world, and so it is imperative that we stay in close touch with each of them and do what we can to make their Pacific Basin experience enjoyable and fulfilling so they can approach their work with the right tools and attitude.

We address their workplace needs with passion, enthusiasm and dedication so they can focus on servicing the needs of our external customers in much the same way. We hope that the dedication we show in looking after our staff enhances their ability to go the extra mile for our external customers, such that Pacific Basin takes a step closer to becoming the partner of choice for its customers as well as its staff.

P.B. Subbiah
Director, Human Resources &
Administration

CSR Report

Our platform for creating long-term value is based on good corporate governance and sustainable business practices.

Sustainable business practices include good corporate social responsibility, and our CSR initiatives involve commitments to:

- sound operating and business practices
- minimising the impact our operations have on the environment at sea and on shore
- engaging with the communities where our employees live and work
- creating workplace conditions that allow our people to thrive

We seek to improve our CSR performance not only because of the moral obligation we feel we have to do so, but also because we believe they make our business competitively stronger and positively impact long-term shareholder value.

www.pacificbasin.com
about us > corporate responsibilities
Corporate Social Responsibility

Corporate Social Responsibility

A LONG-TERM, INTEGRATED CSR APPROACH

As a substantial business with an environmental footprint that comes from operating a large fleet of ships worldwide, we recognise our responsibilities to the environment generally and, in particular, we actively seek to minimise the impact our operations have on the atmosphere and our marine surroundings. We also have an obligation to our staff and the quality of their workplace, and to the communities in which we operate.

We integrate Corporate Social Responsibility ("CSR") efforts into our daily operating and business practices, because the actions we take not only have a bearing on the long-term sustainability of our business, but they also make us competitively stronger and enhance the value of our business in the future.

Corporate social responsibilities are rooted in our culture and, by integrating CSR information in our annual report, we create transparency about our operations so that all stakeholders have a clear sense of our non-financial business practices and the linkage across our actions, policies and performance.

OUR IMPACT IN 2012

Environment

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

9,000,000 nautical miles travelled

617,000 tonnes of heavy fuel oil purchased

Workplace & Operating Practices

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

2,100 seafarers

320 shore-based employees

Community

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

357 ports of call across 74 countries

17 office locations worldwide

CSR PERFORMANCE HIGHLIGHTS

In 2012, key accomplishments across environment, workplace and community – the three pillars of our CSR programme – included the enhanced and wider implementation of our Right Speed Programme, other operational measures to reduce our fuel consumption and emissions, and an increase in the number of training managers and training seminars made available to our sea staff. In addition, we have evolved our CSR reporting with additional metrics and through increased integration of complementary information published in this Annual Report and on our website. Combined, these two media provides readers with a more comprehensive picture of our global CSR activities and progress.

Environment

20% CO_2 emissions reduction in past 5 years

Community

HK$131,000 raised and donated to charitable causes

Workplace & Operating Practices

5 officer training seminars in 2012

6 ships per safety and training manager

51% shore staff received external training

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

Our CSR Strategy

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

> **At sea**, sustainability initiatives are oriented towards reducing our impact on the atmosphere and marine environment. We seek to reduce waste by minimising what we consume both at sea and ashore.
>
> **In the workplace**, we strive to create a culture whereby safety prevails across all activities and operating practices, and where our employees can thrive and make a difference.
>
> **In the community**, we advocate and engage with organisations that are involved in or connected with the business of shipping.

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

Reporting Framework and Scope

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

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

Our CSR reporting focuses on the majority portion of our fleet which comprises owned and finance-leased vessels that we control both commercially and technically. It is these vessels over which we have the authority to mandate and control Safety, Quality, Health and Environment (SQH&E) policies and actions. Our fleet of owned and finance-leased vessels averaged 48 ships in 2012 (2011:43 ships). We also report on company-wide staff initiatives and performance. At 31 December 2012, we employed 2,100 seafarers and 320 shore-based staff.

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

CSR Governance

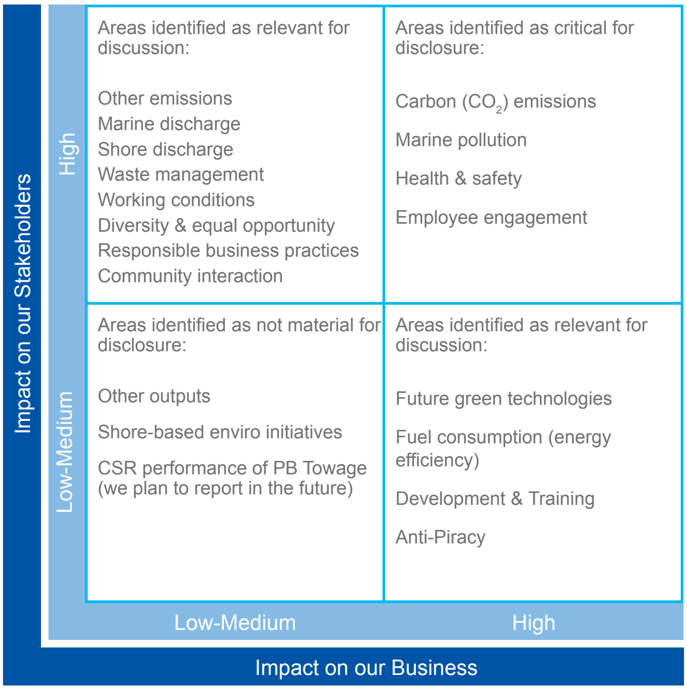
The Chief Executive Officer is delegated responsibility by the Board for corporate sustainability. In turn, his direct reports have functional responsibility for specific areas of CSR. They include, among others, the senior managers of our Fleet & Newbuildings division (including technical operations, crewing and risk, safety & security), and our Human Resources & Administration and Corporate departments.

Materiality Matrix & Stakeholder Engagement

Pacific Basin engages in an active two-way dialogue with our stakeholders – primarily customers, partners, employees, shareholders and regulators. We are thus able to map issues that have the greatest impact to our stakeholders and our business, and to determine the basis for key areas for discussion in our CSR reporting.

In addition to our day-to-day contact with customers, we conduct regular customer and investor surveys that provide insight about our operations and ways we can improve. We also engage actively with associations that work to influence regulations that affect our industry.

In 2012 we contributed to the active dialogue on upcoming regulatory changes relating to Marpol Annex V and garbage management, hold washing and implementation of electronic chart display information systems.



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

Environment

As a leader in our industry, we recognise our role in reducing the impact of our operations on air, sea and land. One of the ways we do this is by renewing or expanding our fleet with next generation, modern ships designed and equipped to enhance efficiency. In 2012 and early 2013, we added seven modern ships to our fleet on the water, bringing the average age of our owned and finance-leased ships to 8.2 years. 16 further ships are contracted to deliver into our fleet in 2013 to 2015. These include a series of 37,000 dwt JNS-built ships of enhanced, fuel-efficient design which are expected to burn 3.5 metric tonnes less fuel oil per day and have the capacity to carry 5,000 metric tonnes more cargo than the previous generation of similar ships.

We also expanded and enhanced the implementation of our Right Speed Programme and other operational measures to reduce fuel consumption and emissions from our fleet on the water.

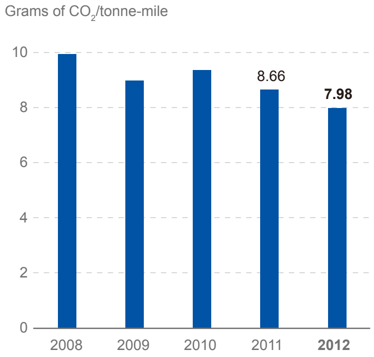
www.pacificbasin.com
corporate social responsibility > environment
Details of our main environmental measures

KEY PERFORMANCE INDICATORS

CO_2 Index (Ships' Emissions)

7.98 Grams of CO_2 per tonne-mile

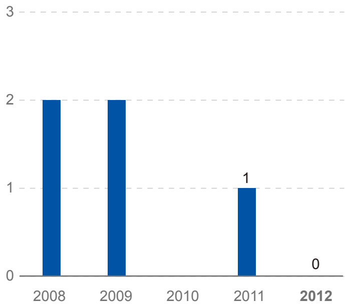
↓7.9%



Environmental Pollution Incidents

0 Incidents

↓100%



PERFORMANCE

Our carbon emissions reduced 8% year on year to 7.98 grams of CO_2 per tonne-mile, marking a 20% reduction in our CO_2 Index over the past five years.

Our various initiatives to maximise engine and combustion efficiency, improve hydrodynamics and optimise operating practices have delivered a measurable improvement in our emissions performance. However, the major driver of our fuel consumption and emissions performance in 2012 was our home-grown Right Speed programme which determines optimal operating speeds based on prevailing freight rates and fuel prices.

Aim: In the absence of an alternative primary fuel for dry bulk shipping, to do what we reasonably can to reduce our consumption of marine fuel oil and our emissions of greenhouse gases – particularly CO_2 – through technical and operational measures and by operating a modern, fuel-efficient fleet. Our target in 2013 is to improve on our 2012 performance, though this will partly be driven by the market's adversity towards speed optimisation.

Our bulk carrier fleet achieved zero incidence of environmental pollution.

This result is indicative of the pro-active culture of safety and quality on our ships, our ISM-compliant Pacific Basin Management System which prescribes strict system controls and procedural safeguards to prevent fuel spillage, and our officers' professional response to navigation incidents that can occasionally occur.

Aim: To always achieve zero pollution incidents

ADDITIONAL ENVIRONMENTAL PERFORMANCE INDICATORS

In this year's CSR report, we have added new environmental metrics to quantify other emissions, discharges and impacts from our operations. We have tracked these for several years and they are standard outputs in our industry.

	Unit	2012	2011
Emissions			
At Sea			
Chlorofluorocarbons ("CFCs")	kg/month	1.42	3.92
On Shore			
CO_2 (emissions from headquarter office activities*)	metric tonnes	2,213	2,331
Energy and Fuel Consumption			
At Sea			
Heavy fuel oil (purchased)	metric tonnes	583,600	541,700
Low sulphur fuel oil (purchased)	metric tonnes	33,200	10,200
Marine gas oil & marine diesel (purchased)	metric tonnes	10,100	8,860
Waste			
Garbage landed	m^3/month	2.61	1.73
Garbage discharged to sea	m^3/month	3.76	3.95
Engine room bilge water discharged to sea	m^3/month	10.10	9.42
Sludge incinerated	m^3/month	3.21	3.36

* Emissions from our headquarter office consumption and activities includes emissions from staff commuting and business air travel, air conditioning, lighting and computer and office equipment, as well as paper and fresh water consumption (audit period: July 2011 to June 2012)

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

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

Progress ashore

In 2011, Pacific Basin began participating in a scheme that measures and tracks outputs and energy consumption from our headquarters in Hong Kong. An independent audit of our environmental performance determined that our office in Hong Kong produced carbon emissions of 2,213 metric tonnes or 14 tonnes CO_2e per employee for the 2011/2012 audit year. Our initiatives and performance resulted in Pacific Basin being awarded a Silver Label from the WWF's Low-carbon Office Operation Programme. Across our offices, there are environmental elements that are within our control and others that are not. We seek to improve awareness of environmental issues and how we try to tackle them by distributing data and audit findings.

www.pacificbasin.com
corporate social responsibility > environment
Key inputs and outputs of our ships and our ship-based environmental initiatives

Workplace

WORKPLACE & OPERATING PRACTICES

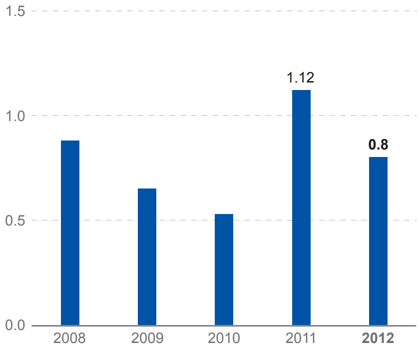
The health and safety of our employees underlies every aspect of how we operate, and is driven by policies, procedures, a culture of teamwork and efforts to continually improve how we conduct ourselves in our business at sea and onshore. Providing healthy work conditions, a safe environment and opportunities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

KEY PERFORMANCE INDICATORS

External Inspection Deficiency Rate

0.8 deficiencies

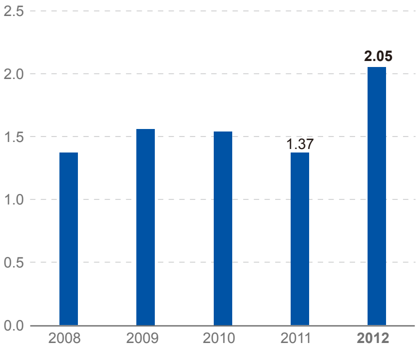
↓29%



Lost Time Injury Frequency (LTIF)*

2.05

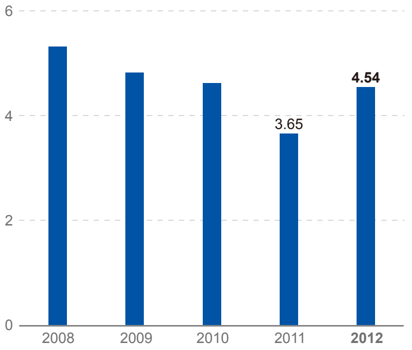
↑50%



Total Recordable Case Frequency (TRCF)*

4.54

↑24%



PERFORMANCE

Our average deficiencies per inspection reduced 29% to 0.8 and the frequency with which inspections found zero regulatory deficiencies was 75%. These results are among the best in the industry, especially considering our activity in the Far East where defects are typically raised in larger numbers and logged even if subsequently proven to be in order.

Aim: To maintain our ships to a very high standard, a good measure of which is our performance in external Port State Control (PSC) inspections which we target to improve in 2013 through our policy of “zero defects in external checks through good self-checking” by “22 crew, 22 owners™”.

Regretfully the frequency of our “lost time injuries” increased 50% year on year, as such injuries increased from 12 in 2011 to 19 in 2012. Our total recordable case frequency increased 24% to 4.54. Our safety performance was impacted by increased slips, trips and falls. As part of our initiatives to rectify this record and for the benefit of the wider shipping industry, we cooperated with Videotel in the production of a film on ship safety. See page 49 for disclosure of two non work-related fatalities.

Aim: To substantially eliminate our injury incidents and to better our best LTIF result of 0.85 in 2007.

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

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

HEALTH & SAFETY

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

In 2012 there were two non work-related fatalities including one significant safety incident. One fatality occurred on board when a seaman died of natural causes. The other occurred when an off-duty seaman fell from a gangway. An investigation determined two causal factors: the gangway was not tightly rigged and the seaman tested positive for alcohol. Following the incident we circulated two safety bulletins to reinforce proper procedures in rigging a gangway and to alert staff that compliance with our drug and alcohol (D&A) policy is mandatory, violation of which could lead to suspension or termination of employment. Our D&A policy, along with other workplace and operational policies, are available on our website. We were deeply saddened by these losses and have extended our heartfelt condolences to the deceaseds' families.

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

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

We encourage near-miss reporting which in 2012 accounted for 743 reports (2011: 675) through which officers and crew described safety incidents - however minor - that could have occurred and which were the basis for valuable advice to our seafarers on avoiding similar occurrences in the future.

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

Employee Retention		**Training**	
Shore Staff	Seafarers	Shore Staff	Seafarers
92% retention (2011: 85%)	78% officer 72% overall	51% received external training (2011: 43%)	5 training seminars (2011: 4)
Shore staff under Long Term Incentive Scheme: 40% (2011: 30%)		6 ships per Marine & Safety Manager/Training Manager for pre-joining and on board training	
		2-3 officer cadets per ship	

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

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

TRAINING & DEVELOPMENT

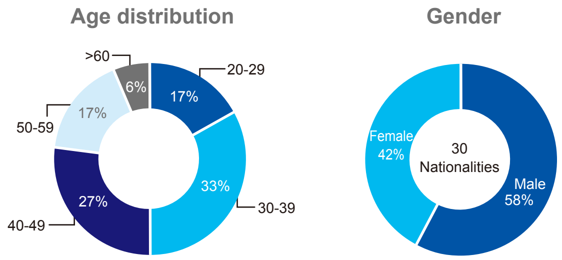
Investment in the development and training of our staff at sea and ashore is key to maximising our crew and ship safety and productivity, and to motivating and retaining our people. This year we have introduced new metrics that capture training and staff retention for both seafarers and shore-based employees.

COMMUNICATING FROM SHIP TO SHORE

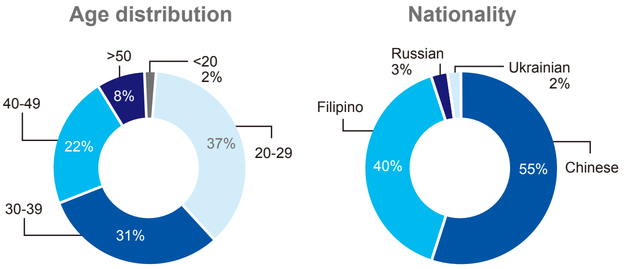
In 2012 we deployed e-mail kiosks on all vessels in our owned and finance-leased fleet enabling seafarers the ability to anonymously report grievances or misconduct aboard. Reports must be made within 24 hours of an incident and all are investigated and appropriately handled. Generally the ship's Master assists with resolving matters that can be dealt with while at sea. Ten reports were received in 2012, none of which resulted in safety or environmental violations or disciplinary action.

ADDITIONAL WORKPLACE METRICS (as at 31 Dec 2012)

Distribution (Shore Staff)



Distribution (Seafarers - Pacific Basin Dry Bulk)



Community

Employees throughout Pacific Basin are encouraged to get involved in the communities in which they work and reside, and to participate in groups and associations that are engaged with aspects of shipping industry or support the welfare of seafarers. We also encourage employees to participate in activities that promote physical health and well-being. From sponsored races to participating in committees and acting as ambassadors to good causes, Pacific Basin raised HK$131,000 in 2012 for such causes that benefit those around us.

Within the shipping industry, Pacific Basin takes an active role in speaking out about areas of legislation, regulation and operational changes where we believe we can affect the right kind of change. In addition to being members of the Baltic and International Maritime Council (BIMCO), the International Association of Dry Cargo Shipowners (Intercargo) and the Hong Kong Shipowners Association (HKSOA), in 2013 we were appointed to the European Committee of The Safety and Loss Advisory board of Standard P&I Club. Crew standards and navigational excellence were just two of many issues we emphasised in these forums in 2012.

In 2012, we funded a second scholarship at Hong Kong Polytechnic University, bringing to two the number of students currently pursuing a bachelor's degree in International Shipping and Transport Logistics under our sponsorship.

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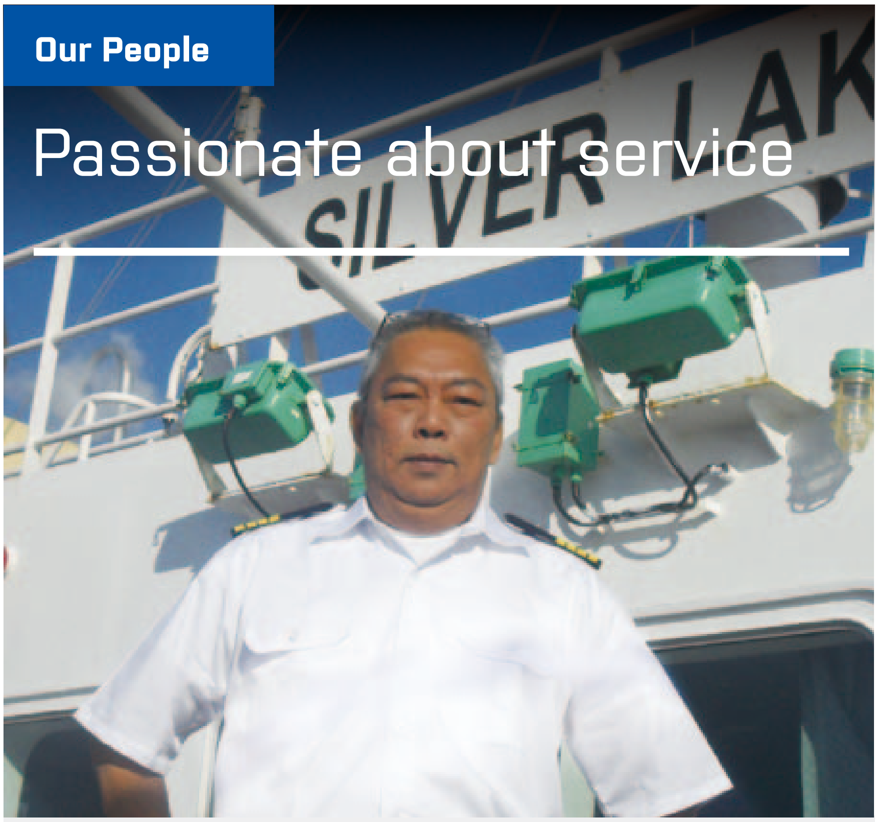
about us > corporate social responsibility > community

In January 2013, we signed up to the Fair Winds Charter, the first of its kind in Asia, through which we and other ship operators undertake to switch to low-sulphur (0.5%) fuel when our ships are berthed in Hong Kong. The charter is expected to result in reduced sulphur emissions in Hong Kong while also prompting government efforts to further improve emissions control in Hong Kong and in the Pearl River Delta. Although our ships do not call into Hong Kong regularly, we are proud to participate in this community and environmental initiative which stands to directly benefit our Company's home town of Hong Kong.

Our People

Passionate about service



When promoted to ship's Captain several years ago, I received encouraging words not to carry alone the problems I might encounter on board, but rather to share them with the Pacific Basin team ashore. I still take comfort from the knowledge that guidance from the shore team is just a call away.

I am also comforted and encouraged by several other home-grown Pacific Basin initiatives.

All ships' officers face their share of delays and incidents, but the Company stands by its no-blame culture which engenders confidence on board and a willingness to learn from mistakes.

Pacific Basin's pre-joining training goes a long way to ensuring new crew members are ready for deployment, resulting in safer operations and smoother cooperation on board.

Crew are encouraged to report defects to the shore team within 24 hours so the Company can address issues before they escalate.

Through its External Check Bulletin and Experience Feedback initiative, the Company broadcasts developments within the fleet and the industry to update our officers and crew on relevant issues.

I consider Pacific Basin to be well on its way to being the leader in its sector both in scale and in the quality of its fleet management. I am proud to represent Pacific Basin in our business at sea and with ports and customers around the world, and I am confident that through typical Pacific Basin teamwork we are able to deliver the best possible service to the Company's customers.

Capt. Bienvenido C. Frias
Master
m/v "Silver Lake"
Handysize bulk carrier

Our People

Always professional

My job in Operations is akin to customer service. Once my chartering colleagues have contracted with customers to carry cargoes, my operations colleagues and I coordinate the performance of those voyages, focusing on keeping our ships running smoothly and on schedule to ensure total customer satisfaction. That often means responding to customers' special requests, even at very short notice.

We are often required to discharge a cargo at multiple ports and customers frequently make last-minute requests to switch the rotation of discharge ports. In such instances, we immediately check the arrivals line-up, tide states and other port information based on the new rotation and, in consultation with our chartering colleagues, we present our customers with a clear sense of the costs and other considerations they need to decide whether to go ahead with the rotation change.

We each have several ships to operate and, especially as urgent changes in customers' requirements and other sudden challenges are practically routine, multi-tasking, efficiency and time management are key in my daily work. It is fulfilling to know that our hard work goes a long way to winning the trust and support of our customers. Good service is like a well-oiled machine – if one wheel stops working, the entire machinery falls apart. And so it is in our business. Operations sits between the Chartering and Technical teams to ensure we deliver as promised.

Becky Wong
Senior Operations Executive
Operations, Pacific Basin Dry Bulk

Governance

Our platform for creating long-term value is based on good governance and sustainable business practices.

These are underpinned by our Code of Conduct and business principles including:

- honouring our commitments
- operating with the highest standards of diligence and care, with the highest priority to safety of our staff in the field and ashore
- taking a considered approach to everything we do
- seeking the right solutions to challenges faced by our external and internal customers
- valuing human interaction and the personal touch
- creating excellence through dedication, continuous improvement and teamwork
- treating people with dignity and respect
- encouraging diversity of opinions and cultures

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about us > corporate responsibilities
Corporate Governance

www.pacificbasin.com
about us > corporate values
Pacific Basin Business Principles

Risk Management

RISK MANAGEMENT

Risk management plays an important and high level role in ensuring we achieve the long-term vision and mission of Pacific Basin, which we believe enhances long-term shareholder value. It is embedded in our business functions and aims to prevent our strategies and objectives from being thrown off course.

We are exposed to a variety of risks, which are summarised in the Group Overview section of this report. The risk management function helps management to track our Group's risks and to formulate appropriate mitigating actions to protect our business, stakeholders, assets and capital.

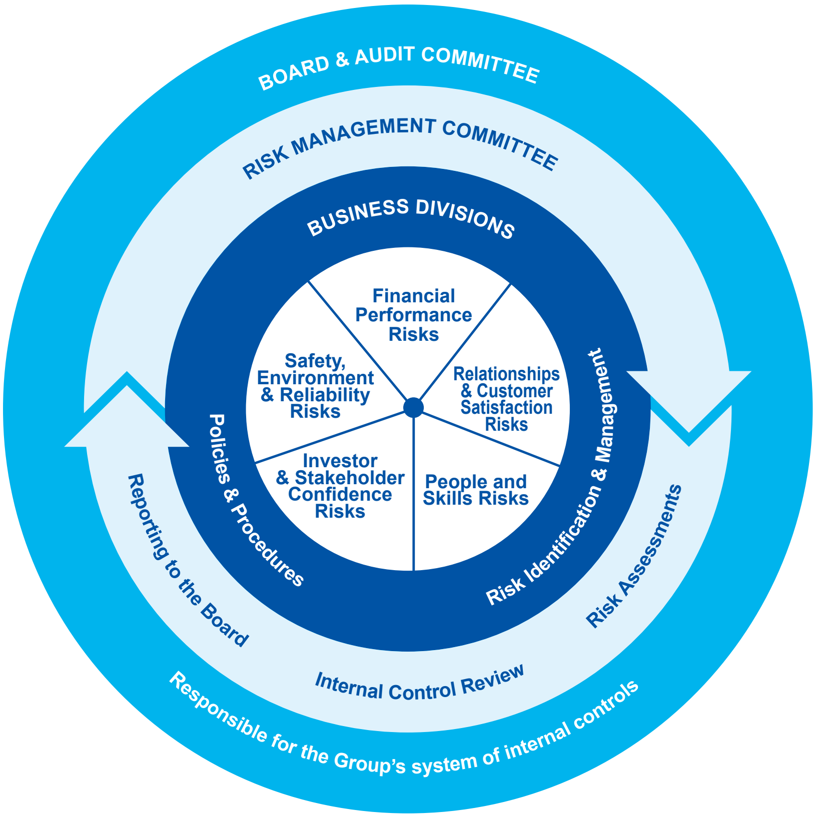
RISK IDENTIFICATION AND OVERSIGHT STRUCTURE

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

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

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

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



Symbols in Risk Management section

Audited Audited information

→ No change in risk level

↑ Increasing in risk level

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Risk Management & Internal Controls

PRINCIPAL RISKS

The Group categorises the diverse range of risks we face under headings driven by our key business driver groups.

RISKS TO FINANCIAL PERFORMANCE

RISKS/IMPACTS	RISK REDUCTION MEASURES	CHANGE FROM LAST YEAR
Audited **Market Risk** Adverse financial impacts due to: • earnings volatility from our dry bulk and towage vessels; • cost volatility including fuel prices, interest rates and other operating costs; and • exchange rate volatility from the currencies we use.	**Earnings volatility** • We aim to secure contracts of affreightment of a year or longer for our dry bulk business and long-term charter contracts for our offshore project towage business to stabilise our main sources of earnings. **Cost volatility** • Fuel represents a significant portion of our costs, and fluctuations in fuel prices would impact our financial results. We manage this risk in part by entering into forward agreements to purchase fuel oil at predetermined prices. • Interest rates in relation to our interest-bearing bank loans can be volatile. We manage this in part by maintaining a balanced portfolio of floating and fixed interest rate loans. **Exchange rate volatility** • The functional currency of most of the Group's operating companies is the United States Dollar (USD) as the majority of our transactions are denominated in this currency. A major part of our exchange rate fluctuations risk arises from the purchase of vessels in non-USD denominated currency. We also use derivative instruments to manage volatility in dry bulk freight rates, fuel prices, interest rates and exchange rates.	→ Page 112 Derivative Assets and Liabilities
Vessel Investment & Deployment Risk Inappropriate timing and choices of vessel investment and deployment may lead to an uncompetitive cost structure and reduced margins. The value of our vessels may vary significantly through shipping cycles, and we need competitively priced and high quality vessels to provide our services to customers.	We evaluate potential investments and divestments based on relevant market information, estimated future earnings and residual values to maximise returns to shareholders. We adopt a flexible ownership/leasing strategy that is aligned with shipping cycles, and we consider maintaining an active fleet renewal programme by: • securing newbuilding contracts with leading, reputable and financially viable newbuilding shipyards; • transacting secondhand deals with creditworthy counterparties; and • actively engaging in long-term charter-in of dry bulk vessels.	→

RISKS/IMPACTS	RISK REDUCTION MEASURES	CHANGE FROM LAST YEAR
Audited **Credit & Counterparty Risk** Default or failure of counterparties to honour their contractual obligations may cause financial loss. These counterparties include: • RoRo vessel buyer; • dry bulk and towage chartering counterparties; • vessel sellers; • newbuilding shipyards; • derivative counterparties; • banks and financial institutions; and • joint venture partners.	Our global network of offices positions us close to our counterparties allowing us to better know them, thus minimising the risk of counterparty failure. In addition, we take measures to limit our credit exposure by: • securing a diversified profile of counterparties with successful track records and sound credit ratings; • actively assessing the creditworthiness of counterparties; and • obtaining refund guarantees from newbuilding shipyards. The management of trade receivables and our credit policy are set out in the Financial Statement section.	↑ Due to increased concentration risk of receivables in relation to the sale of our RoRo vessels. Page 117 Trade Receivables
Insurance Risk Any vessel accident could endanger our crew, adversely affect the strength of our brand and our reputation with stakeholders and result in service disruption and significant costs.	We implemented measures to ensure safe operations across our companies and fleets which have positively impacted our performance in safety. However, accidents do happen, and so we place insurance cover at competitive rates through marine insurance products, including hull and machinery, war risk, protection and indemnity, freight demurrage and defense cover, etc. Sufficiency of insurance cover is regularly evaluated and adjusted in line with prevailing asset values and in compliance with loan covenants and internal policies.	→ Page 49 Health & Safety
Audited **Liquidity Risk** Insufficient financial resources (such as bank borrowing facilities) may result in the Group not meeting its payment obligations as they fall due.	We regularly review our Group's treasury policy to ensure: • sufficient funds are available to meet our existing and future commitments; and • compliance with covenants relating to bank loans, finance leases and convertible bonds.	↑ Due to limited availability of credit lines from the banking industry. Page 133 Financial Liabilities Summary

RISKS/IMPACTS	RISK REDUCTION MEASURES	CHANGE FROM LAST YEAR
Audited **Capital Management Risk** Weakness in our financial management capability and insufficient capital could impact our ability to operate as a going concern, provide adequate returns to shareholders, and benefit other stakeholders to support the stability and growth of the Group.	We conduct regular reviews to ensure an optimal capital structure after considering: • future capital requirements and capital efficiency; • prevailing and projected profitability; • projected operating cash flows; and • projected capital expenditure and expectations for strategic investment opportunities. Our dividend policy is to distribute regular dividends to shareholders and to pay out a minimum of 50% of eligible profits for the year, with the remainder of the profits retained as capital for future use. Our Board of Directors monitors closely the ratio of net borrowings to net book value of property, plant and equipment, and the ratio of net borrowings to shareholders' equity.	➡ Page 2 Financial Summary

RISKS TO RELATIONSHIPS AND CUSTOMER SATISFACTION

Customer Satisfaction & Reputation Risk Poor service could lead to loss of customers. Adverse impacts to our brand value and reputation as a trusted counterparty may restrict our access to customers, cargoes, high quality vessels, funding and talent.	Our global office network position us closer to our customers enabling a clear understanding of their needs and first-rate, localised customer service. A large, modern, uniform fleet and a comprehensive in-house technical operations function enhance our ability to deliver a high-quality and reliable service. Frequent customer engagement enhances customer satisfaction.	➡
Banking Relationships Risk Poor relationships with banks may reduce our ability to access different funding sources.	We have a dedicated treasury function tasked with developing and maintaining relationships with a diverse group of reputable banks worldwide. These relationships are maintained and augmented through regular senior management contact and consistent compliance with our loan obligations.	➡

RISKS TO PEOPLE AND SKILLS

RISKS/IMPACTS	RISK REDUCTION MEASURES	CHANGE FROM LAST YEAR
Employee Engagement Risk We are only as good as our people and so our ability to move towards our vision depends on the effectiveness of our staff both ashore and at sea. Loss of key staff or an inability to attract, train or retain staff could affect our ability to achieve our long-term goals and expand our business.	Group HR and Crewing departments are tasked with recruiting and maximising engagement of staff ashore and at sea. • We use diversified manning sources for seafarers. • We offer regular training for staff ashore and at sea. • We implement annual staff performance appraisals and incentives and other HR initiatives to encourage, retain and otherwise engage staff.	➡ Page 49 Training & Development
Succession Risk Inadequate succession planning could lead to prolonged executive searches, disruption to our strategic momentum and the business, and undermine stakeholder confidence in the Group.	The Group has a dedicated HR department which oversees organisational design, talent management, hiring and remuneration. Succession plans for senior management are regularly reviewed. The Group closely monitors the Board succession planning process through its Nomination Committee so as to ensure Board continuity. The Group has a clear vision, mission and business principles to ensure that any potential successors are equipped to lead the business forward.	Emerging risk as the organisation grows.

RISKS TO INVESTOR & STAKEHOLDER CONFIDENCE

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.	The Group has a committed structure on Corporate Governance to meet the needs and requirements of the business and its stakeholders. The Audit Committee and the Risk Management Committee are proactively ensuring the overall corporate governance and risk management framework for the Group. During the year, the Board and relevant employees received regular trainings in relation to corporate governance matters to ensure high standard of corporate governance.	➡ Page 58 Corporate Governance
Investor Relations Risk An ineffective investor relations function or inadequate transparency in our external communications could undermine stakeholder confidence in our Group.	The Group has a dedicated investor relations function as well as policies and guidelines on communication and disclosure of information to the public. Our website is updated regularly with company news and financial information.	➡ Page 81 Investor Relations

RISKS TO SAFETY, ENVIRONMENT AND RELIABILITY

RISKS/IMPACTS	RISK REDUCTION MEASURES	CHANGE FROM LAST YEAR
Safety Risk Piracy, inadequate safety and operational standards and other causes of accidents may lead to loss of life, severe damage to property and our vessels, and impact the Group's reputation among seafarers, customers and other stakeholders.	Our commitment to the safe operation of our ships is manifested through a proactive system ashore and at sea – the Pacific Basin Management System – enhanced by well-conceived training and maintenance programmes and innovative initiatives to ensure our vessels are in good condition and in all respects safe to trade. The high quality of our attention to safety is evidenced by an excellent safety record and our several safety-related awards in recent years.	➡ Page 49 Health & Safety
Environmental Risk Non-compliance with environmental emissions and standards may result in financial loss and significant damage to our brand and the long-term sustainability of our business.	**Emissions reduction** We are at the forefront of efforts in our sector to reduce emissions. Such emissions reduction efforts include initiatives to improve engine performance and hull and propulsion hydrodynamics, and to adopt fuel-efficient operational measures. **Pollution liability** We promote a proactive safety culture across our fleet involving safety risk assessments to mitigate risk in critical tasks on board. Through our safety training, we seek to eradicate the risk of accidents that lead to pollution and related penalties, costs and adverse publicity. In addition, we cover our risk of liability for pollution through membership of reputed Protection & Indemnity (P&I) clubs.	➡ Page 46 Environment
Vessels & Systems Risk The strength of our operational performance depends on the effective deployment of our vessels and the reliability of our systems and technology. Failure to operate and utilise reliable vessels, equipment and systems could result in vessel down-time, service disruption and disruption to communications.	**Vessels operational risk** We operate high-quality vessels built by reputable shipyards which we maintain to a high standard under our ISM Code compliant "Pacific Basin Management System" to assure safety and reliability of service. **Systems risk** Regular meetings of our IT Governance Committee to oversee the Group's IT policies and procedures ensure that our IT strategies are met. Preventive or contingency measures are in place to minimise the risk of system failures and to promptly address system breakdowns. Our IT team receives regular technical training and our general staff are regularly updated of IT policies and system upgrades.	➡

Corporate Governance

The Board of Pacific Basin retains its strong belief in corporate governance and is committed to achieving and maintaining high standards of corporate governance consistent with 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 2012, the Group has complied with all code provisions of the Code (effective from 1 April 2012) as set out in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules"), as well as the former Code on Corporate Governance Practices (effective until 31 March 2012). The Group continues to adopt the recommended best practices under the Code. However, there are certain areas where full implementation is not considered appropriate, namely:

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

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Board & Board Committees

THE BOARD OF DIRECTORS

Board Composition and Responsibilities

The Board of Directors is collectively responsible for promoting the success of the Company by directing and supervising its affairs. During the year, Mr. Mats H. Berglund joined the Board on 1 June 2012 as CEO and an Executive Director, replacing Mr. Klaus Nyborg who resigned on 15 March 2012. Additionally Mr. Chanakya Kocherla was appointed as an Executive Director on 25 June 2012.

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

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.

The four INEDs play a key role in protecting shareholders' interests. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, which positively contribute to the effective strategic management of the Group through independent, constructive and informed comments.

The posts of Chairman and CEO are held by Mr. David M. Turnbull and Mr. Mats H. Berglund respectively and their roles and responsibilities are separate and are set out in writing.

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

During the year ended 31 December 2012, the Company received confirmation from each Director that he has given sufficient time and attention to the affairs of the Company. Each Director has disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, as well as the identity of the public companies or organisations.

In accordance with the Company's Bye-laws, at each annual general meeting one-third of the Directors for the time being (rounded up if the number is not a multiple of three) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years. Please refer to the "Report of the Directors" section for the composition of the Board and Board Committees and the terms of appointment of each Director.

Independence of INEDs

Pursuant to the requirement of the Listing Rules, the Company has received written confirmation from all four INEDs of their independence from the Company. The Board considers each of them to be independent.

Directors' Continuous Professional Development

During the year, with the support of the Company Secretary, the Directors have participated in continuous professional development to develop and refresh their knowledge and skills. Newly appointed Directors received external induction training on relevant compliance and regulatory matters for directors of companies listed in Hong Kong and legal, corporate governance and best practice matters before their respective appointment became effective. All Directors received updates on the same matters, as well as updates on the industries and the markets the Group operates in and significant changes in financial accounting standards, all of which were presented at one of the Board meetings during the year. Relevant training courses and reading materials were also identified by the Company during the year and records of the training that the Directors received have been provided to the Company Secretary.

Board Evaluation

The Board has carried out a self-assessment to evaluate its own performance during the year with an aim of ensuring continuous improvement in its functioning which in turn would influence and impact the business. The first evaluation was carried out in October 2012 led by the Chairman. The evaluation concluded that the Board operated effectively and identified actions for further enhancement such as the need for succession planning for the Board.

The Board

Accountable to	• The Shareholders of the Company
Primary Responsibilities	• approve Pacific Basin's long-term corporate strategies and broad policies • oversee the management of the Group • approve budgets and business plans • prepare accounts and financial statements of the Group • evaluate the performance of the Group • periodically assess the achievement of targets set by the Board • corporate governance best practice
Approves	• acquisitions or disposals or other transactions that require shareholders notification or requiring shareholders' approval under the Listing Rules • developments in the strategic direction of the Group • matters involving a conflict of interest for a substantial shareholder or a Director
Delegates to	• Board Committees: detailed evaluation of certain responsibilities (outlined later in this section) • Executive Directors: oversight of the Group's business operations; implementation of strategies laid down by the Board; and the making of day-to-day operating decisions

Chairman

Mr. David M. Turnbull

Responsible for:

- considering and approving Group strategies and policies in conjunction with the Board and overseeing their subsequent execution by management
- setting Group management principles, particularly regarding the control of risks and overall governance
- ensuring that he and his delegates shall comply with the responsibilities under the Code

Chief Executive Officer

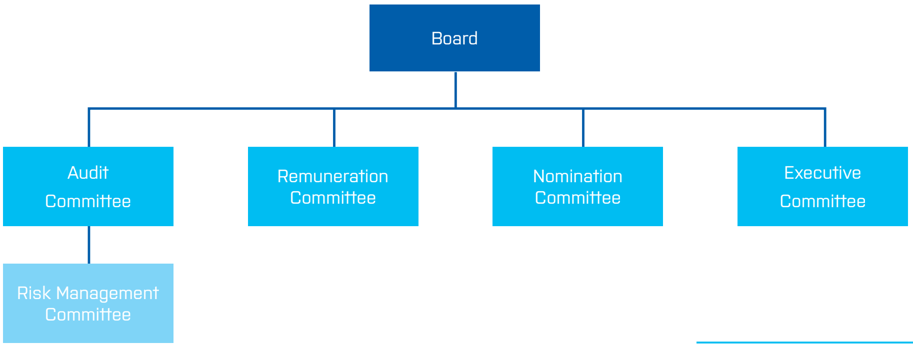
Mr. Mats H. Berglund

Responsible for:

- general day to day management and execution of the Group's activities and strategic initiatives
- formulating and proposing Group strategy and policy to the Board
- ensuring that appropriate information is circulated regularly so that Board members can actively contribute to the Group's development

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 has also established an Executive Committee to streamline the decision-making process of the Company in certain circumstances. Decisions made by the Board and the Board Committees are based on detailed analysis prepared by the management which includes: (i) monthly performance analysis; (ii) periodic investment and divestment proposals relating to our vessels and equity interests; and (iii) periodic Board meetings to evaluate management strategic priorities. The terms of reference of these Board Committees were reviewed and changes adopted during the year and are available on the Company's website.



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Board & Board Committees

Board, Board Committee Meetings and Annual General Meeting in 2012

The Board has four regular meetings annually to discuss business strategy, operational issues and financial performance and it met in total on eight occasions during 2012. The attendance of each Director at the Board, its Committees' meetings and the AGM are set out below.

	AGM	Board	Audit Committee[1]	Remuneration Committee	Nomination Committee
Executive Directors					
David M. Turnbull	1	8/8			
Mats H. Berglund (since 1 June)	N/A	6/6			
Jan Rindbo	0	8/8			
Andrew T. Broomhead	1	8/8			
Wang Chunlin	0	8/8			
Chanakya Kocherla (since 25 June)	N/A	3/4			
Klaus Nyborg (until 15 March)	N/A	1/1			
Independent Non-executive Directors					
Patrick B. Paul	0	8/8	4	2	2
Robert C. Nicholson	1	8/8	3	2	2
Alasdair G. Morrison	1	8/8	4	2	2
Daniel R. Bradshaw	1	8/8	4	2	2
Total no. of meetings held during the year:	**1**	**8**	**4**	**2**	**2**

[1] *Representatives of the external auditor participated in every Audit Committee meeting held.*

THE AUDIT COMMITTEE

Membership

Chairman: Patrick B. Paul

Members: All four INEDs

Main Responsibilities

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

Work Done in 2012

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

- review and discussion of the external auditors' Audit Committee Report in respect of the 2011 full year audit and 2012 interim review;
- review of the 2011 annual report and annual results announcement and the 2012 interim report with a recommendation to the Board for approval;
- review of the confirmation of independence of all INEDs;
- recommendation to the Board for approving the proposed amendments to the Terms of References of the Board and Executive Committees;
- review of the Risk Management Committee reports and consideration of the Internal Audit requirements;
- review of the adequacy of the Group's marine related insurance covers;
- review of the whistleblowing policy with a recommendation to the Board for approval;
- review and consideration of the accounting treatment of certain finance leases;
- review of the shareholders communication policy with a recommendation to the Board for approval;
- review of the proposed amendments to the Terms of Reference of the Risk Management Committee with a recommendation to the Board for approval; and
- review and approval of management's recommendation on the legal structure of certain subsidiaries.

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

THE REMUNERATION COMMITTEE

Membership

Chairman: Robert C. Nicholson

Members: All four INEDs

Main Responsibilities

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

Work Done in 2012

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

- assessment of the performance of Executive Directors, senior management and certain higher paid employees and approval of their year-end bonuses and annual salary adjustments for both 2011 and 2012;
- approval of the grant of share awards to Executive Directors and staff members; and
- approval of the remuneration packages for the newly appointed Executive Director and Chief Executive.

THE NOMINATION COMMITTEE

Membership

Chairman: Robert C. Nicholson

Members: All four INEDs

Main Responsibilities

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

Work Done in 2012

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

- acceptance of the resignation of Mr. Klaus Nyborg as CEO;
- approval of the appointment of Mr. Mats H. Berglund as CEO and an Executive Director of the Company;
- approval of the appointment of Mr. Chanakya Kocherla as an Executive Director of the Company;
- assessment of the independence of each INED; and
- consideration of the adequacy of the number of INEDs by reference to the Stock Exchange regulations.

THE EXECUTIVE COMMITTEE

Membership

Chairman: Mats H. Berglund (since 1 June 2012)

Members: All six Executive Directors

Main Responsibilities

1. identify and execute transactions within the parameters approved by the Board;
2. identify and execute the sale and purchase of vessels;
3. identify and execute transactions for long-term inward charters;
4. set cargo cover levels which are within the normal course of the business of the Group;
5. identify and execute transactions for non-vessel marine fixed assets exceeding US$5,000,000;
6. make decisions over loans and guarantees; and
7. exercise the Company's general mandate to repurchase Shares in accordance with the parameters set by the Board and the limits approved by the shareholders.

Work Done in 2012

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

- acquisition of a number of vessels that did not require announcement under the Listing Rules;
- approval of a five-year Handysize cargo contract extension opportunity;
- approval of a number of freight contracts;
- approval of an announcement on the conversion price adjustment in respect of the Group's 1.75% coupon Convertible Bonds due 2016;
- adoption of the revised Terms of Reference of the Executive Committee;
- approval of a long-term charter of a newbuilding and reviewed specification changes for four owned newbuildings;
- approval of the entry into of a number of supplemental agreements to loan facilities made to the Group;
- approval of a share purchase agreement for the disposal of an interest in a joint venture;
- approval of the agreements and documentations relating to issue convertible bonds due 2018; and
- approval of certain routine and administrative announcements.

RISK MANAGEMENT & INTERNAL CONTROLS

Framework

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

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

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

- *Control Environment*

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

- *Risk Assessment*

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

- *Control Activities*

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

- *Information and Communication*

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

- *Monitoring*

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

The Risk Management Committee

Membership

Chairman: Mats H. Berglund

Members: CFO, Company Secretary, Director-Treasury, Risk Manager

Main Responsibilities

1 strengthen the Group's risk management culture;

2 actively identify and review significant risks of the Group through an annual review with division heads;

3 review and recommend appropriate internal controls and policies;

4 develop an internal audit plan; and

5 manage the annual review and testing of internal controls.

Work Done in 2012

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

- assessment and review of risks for the Group;
- review of the results of internal control testing;
- report to the Audit Committee twice on annual risk assessment and internal control review and testing;
- review of the composition of Risk Management Committee and its terms of reference;
- Coordination and preparation for the compliance of the Code that became effective in 2012; and
- Communication of company policies to staff such as guidelines on hospitality and contracting authority limits.

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

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Risk Management

Annual Assessment

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

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

Internal Control System Effectiveness

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

In respect of the year ended 31 December 2012, the Board has reviewed the internal control systems of the Group and no significant areas of concern were identified.

STAKEHOLDER SURVEYS

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

DISCLOSURE OF INSIDE INFORMATION

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

- the Group is fully aware of its obligations under the Listing Rules;
- the Group conducts its affairs with close regard to the "Guide on Disclosure of Price-sensitive Information" issued by the Stock Exchange in 2002 and subsequently the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012;
- through channels such as financial reporting, public announcements and its website, the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public;
- the Group has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the CEO, Chief Operating Officer, Chief Financial Officer and Corporate Communication & Investor Relations Officers are authorised to communicate with parties outside the Group.

DIRECTORS' SECURITIES TRANSACTIONS

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules (the "Model Code").

The Board confirms that, having made specific enquiry, the Directors have complied in full with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions during the year.

SENIOR MANAGEMENT AND STAFF SECURITIES TRANSACTIONS

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

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

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION AND SHARE OWNERSHIP

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

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors, for services provided for the year ended 31 December 2012 is as follows:

		US$'000
Audit	Non-audit	Total
1,731	506	2,237

OUR SHAREHOLDERS

As at 31 December 2012, Pacific Basin had 454 registered shareholders of whom 390 or 85.90% have their registered addresses in Hong Kong.

SHAREHOLDERS MEETING

During the year, the Company held one general meeting with shareholders, namely the Annual General Meeting, at the Conrad Hotel, Hong Kong on 19 April 2012 and the following resolutions, all voted on by polls, were passed and approved:

- receipt and adoption of the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2011;
- declaration of final dividend of 5 HK cents per share for the year ended 31 December 2011;
- re-election of Directors;
- fixing of the remuneration of the Directors by the Board;
- re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2012 and authorising the Board to fix their remuneration;
- general mandate to issue shares;
- general mandate to repurchase shares;
- renewal of the 2% annual cap to issue shares under the Long Term Incentive Scheme; and
- amendments to and adoption of the Company's new Bye-laws.

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media > FAQ
Annual General Meeting and Shareholders' Questions

AMENDMENTS TO BYE-LAWS OF THE COMPANY

At the 2012 Annual General Meeting, special resolutions were passed by shareholders to amend the Company's Bye-laws in order to reflect (i) the amendments made to the Listing Rules and the Code contained in Appendix 14 of the Listing Rules which came into effect during the course of 2012; (ii) the amendments made to the Companies Act since the Company's Bye-laws were last amended in 2009; and (iii) certain housekeeping and administrative amendments.

SHAREHOLDERS' RIGHTS

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

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

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

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

SHAREHOLDERS COMMUNICATION POLICY

The Company has established a Shareholders Communication Policy with the objectives of enabling its shareholders exercise their rights in an informed manner and to allow the 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
about us > corporate governance
Shareholders Communication Policy

PUBLIC FLOAT

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

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Our Shareholders

MARKET CAPITALISATION

Year end	2004	2005	2006	2007	2008	2009	2010	2011	2012
Closing price (HK$)	3.35	3.6	4.9	12.58	3.52	5.63	5.17	3.11	4.35
Market Capitalisation (US$ mil)	539	591	976	2,550	796	1,400	1,280	772	1,083

FINANCIAL CALENDAR FOR 2013

Planned Date	
28 February	2012 annual results announcement
15 March	2012 Annual Report
18 April	1Q trading activities update
19 April	2013 Annual General Meeting
23 April	Last day of dealings in shares with entitlement to 2012 final dividend
24 April	Ex-dividend date
25 April 4.30pm HK time	Deadline for lodging transfers for entitlement to 2012 final dividend
26-30 April	Book closure period (both business days inclusive)
30 April	2012 final dividend record date
8 May	2012 final dividend payment date
1 August	2013 interim results announcement
13 August	Last day of dealings in shares with entitlement to 2013 interim dividend
14 August	Ex-dividend date
15 August 4.30pm HK time	Deadline for lodging transfers for entitlement to 2013 interim dividend
15-16 August	Book closure period (both business days inclusive)
16 August	2013 interim dividend record date
28 August	2013 interim dividend payment date
18 October	3Q trading activities update

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investor relations > corporate calendar
Corporate Calendar

Directors & Senior Management

BOARD OF DIRECTORS

David M. Turnbull age 57

Chairman

Biography:
David spent 30 years with the Swire Group where he held various senior management positions. He was chairman of Swire's Hong Kong-listed companies Swire Pacific, Cathay Pacific Airways and Hong Kong Aircraft Engineering Company. He has also served as a non-executive director of the Hongkong and Shanghai Banking Corporation, Hysan Development and Air China.

Education & qualifications:
Cambridge University: honours degree in Economics

Term of office:
Appointed INED in May 2006
Appointed Chairman in January 2008 and Executive Director in July 2008
Current term expires in May 2014 or at the 2014 AGM

External appointments:
INED of Green Dragon Gas and Greka Drilling (both London AIM listed)
INED of Hong Kong-listed Sands China
Chairman of Seabury Aviation and Aerospace Asia (Hong Kong), a subsidiary of Seabury Group LLC

Committee membership:
Executive Committee

Jan Rindbo age 38

Chief Operating Officer

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

Education & qualifications:
Naestved Business College, Denmark
International Executive Development programme at INSEAD
Managing Global Virtual Teams at INSEAD

Term of office:
Appointed Executive Director in April 2007
Current term expires at the 2015 AGM

External appointments:
None

Committee membership:
Executive Committee

Mats Berglund age 50

Chief Executive Officer

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

Education & qualifications:
Gothenburg University Business School: a "Civilekonom" degree (equivalent to MBA in Business and Finance)
Advanced Management Program at Harvard Business School in 2000

Term of office:
Appointed Executive Director in June 2012
Current term expires in May 2015, subject to re-election at the 2013 AGM

External appointments:
None

Committee membership:
Executive Committee

Andrew T. Broomhead age 51

Chief Financial Officer

Biography:
Andrew joined Pacific Basin in 2003 as the Group's Chief Financial Officer and Company Secretary. He was appointed as an Executive Director in September 2010 with responsibility for Group finance and accounting, investor relations, corporate governance and compliance and IT. He relinquished the position of Company Secretary in July 2012. Andrew has previously worked with Deloitte, Haskins & Sells, Samuel Montagu, International Finance Corporation, Bakrie Investindo and Sanwa International Finance. He has been based in the UK, USA, Singapore, Indonesia and Hong Kong, and has worked in Asia for over 19 years.

Education & qualifications:
Cambridge University: Master of Arts degree in Natural Sciences
Fellow of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales
Breakthrough Programme for Senior Executives at IMD Business School

Term of office:
Appointed Executive Director in September 2010
Current term expires in August 2013 or at the 2013 AGM

External appointments:
None

Committee membership:
Executive Committee

Chanakya Kocherla age 55

Group Managing Director, PB Towage

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

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

Term of office:
Appointed Executive Director in June 2012
Current term expires in June 2015, subject to re-election at the 2013 AGM

External appointments:
None

Committee membership:
Executive Committee

Wang Chunlin age 49

Executive Director

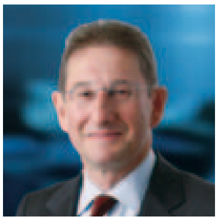
Biography:
CL Wang joined Pacific Basin in March 2006 and was shortly after appointed as an Executive Director with responsibility for group business development with a focus on China. CL has been in shipping since joining the Sinotrans Group in Beijing in 1986. From 1993 to 1995, he served as managing director of Sinotrans' joint venture International Container Leasing Company. In 2002, he was promoted to assistant president of Sinotrans Group and managing director of Sinotrans Shipping. In 2005, he joined IMC Group where he was managing director of IMC Marine Holdings (HK) Ltd and vice chairman of IMC-Yongyue Shipyard & Engineering.

Education & qualifications:
University of International Business and Economics, Beijing
Murdoch University, Australia: MBA degree
Hong Kong Polytechnic University: MSc degree in International Shipping and Transport Logistics
Breakthrough Programme for Senior Executives at IMD Business School

Term of office:
Appointed Executive Director in September 2006
Current term expires at the conclusion of 2013 AGM

External appointments:
None

Committee membership:
Executive Committee



Robert C. Nicholson age 57

Independent Non-executive Director

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

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

Term of office:
Appointed INED in March 2004
Current term expires at the 2014 AGM

External appointments:
Executive director of First Pacific
Director of Metro Pacific Investments Corporation, Philex Mining Corporation, and Philex Petroleum Corporation
Executive chairman of Forum Energy plc
Commissioner of PT Indofood Sukses Makmur Tbk.
All of which are subsidiaries, associates or investees of First Pacific group
INED of QPL International Holdings Limited

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

Patrick B. Paul age 65

Independent Non-executive Director

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

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

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

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

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

Alasdair G. Morrison age 64

Independent Non-executive Director

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

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

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

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

Committee membership:
Audit, Remuneration and Nomination Committees

Daniel R. Bradshaw age 66

Independent Non-executive Director

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

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

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

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

Committee membership:
Audit, Remuneration and Nomination Committees

SENIOR MANAGEMENT

Charles G. Maltby age 41

Managing Director, UK; Director, Handymax

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

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

Morten H. Ingebrigtsen age 51

Director, Asset Management

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

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

Remuneration Report

This Remuneration Report sets out the Group's remuneration policies and amounts for all staff including Executive Directors, Non-executive Directors and senior management. Sections 2, 3 and 4 comprise the auditable part of the Remuneration Report and form an integral part of the Group's financial statements.

At 31 December 2012, the Group employed a total of 327 full time, shore-based staff (2011: 389).

GROUP'S REMUNERATION POLICY

The Board, through the Remuneration Committee, seeks to attract and retain staff with the skills, experience and qualifications needed to manage and grow the business successfully by providing remuneration packages that are competitive, accord with market practice, reward short-term as well as long-term performance and align interests with those of shareholders.

Equity awards are provided through the Company's Long Term Incentive Scheme which is designed to provide Executive Directors, senior management and other employees with long-term financial benefits that are aligned to and consistent with increasing shareholder value.

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

Below sets out the key components of remuneration:

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

REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2012

Audited

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

Note:

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

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

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

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

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

The five individuals whose emoluments were the highest in the Group include five Executive Directors (2011: four Executive Directors and one senior manager). The emoluments of the one senior manager of 2011 fell within the band of HK$6,500,001 to HK$7,000,000 (US$833,333 to US$897,436).

During the year, the Group did not pay the Directors any inducement to join or upon joining the Group. Mr. Turnbull voluntarily requested a reduction of his 2012 approved restricted share awards from 618,000 Shares to 300,000 Shares. No other Directors waived or agreed to waive any emoluments during the year.

The median salary of employees excluding the Chief Executive Officer during the year was US$58,500. In view of the challenging market conditions and our weaker group results, cash bonuses payable to Executive Directors were reduced by 9% (2011:33%) overall. Cash bonuses payable to all other staff were reduced by 20% (2011: 22%)

In addition, certain Other Employees benefit from a profit sharing arrangement amounting to approximately US$3,160,000 (2011: US$4,924,000). This amount combined with the above total remuneration forms the total employee benefit expenses as presented in Note 5 to the financial statements.

REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2011

	Directors' fee US$'000	Salaries US$'000	Bonuses US$'000	Retirement benefit costs US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged US$'000
Executive Directors							
David M. Turnbull	–	349	160	2	511	199	710
Klaus Nyborg	–	695	406	2	1,103	413	1,516
Jan Rindbo	–	495 [1]	313	1	809	279	1,088
Andrew T. Broomhead	–	405	240	2	647	170	817
Wang Chunlin	–	352	132	34	518	227	745
	–	2,296	1,251	41	3,588	1,288	4,876
Non-executive Directors							
Richard M. Hext	48	–	–	–	48	–	48
Independent Non-executive Directors							
Robert C. Nicholson	89	–	–	–	89	–	89
Patrick B. Paul	94	–	–	–	94	–	94
Alasdair G. Morrison	83	–	–	–	83	–	83
Daniel R. Bradshaw	83	–	–	–	83	–	83
	397	–	–	–	397	–	397
Total Directors' remuneration	397	2,296	1,251	41	3,985	1,288	5,273
Senior Management	–	958	489	160	1,607	330	1,937
Other Employees	–	28,951	5,524	2,105	36,580	2,595	39,175
Total remuneration	397	32,205	7,264	2,306	42,172	4,213	46,385

Note: (1) Includes a director's fee of US$40,000.

ACCOUNTING POLICIES ON EMPLOYEE BENEFITS

Audited

Bonuses

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

Retirement Benefit Obligations

- *Mandatory Provident Fund Scheme*

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

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

- *Other defined contribution Schemes*

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

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

Share-Based Compensation

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

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

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

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

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2012.

PRINCIPAL ACTIVITIES, ANALYSIS OF OPERATIONS AND FINANCIAL SUMMARY

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 89.

Taking into consideration the Group's performance, operating cash flow and current financial position, the Directors have recommended the payment of a final dividend of HK5 cents per share for the year ended 31 December 2012. No interim dividend was declared.

The proposed final dividend for 2012 of HK5 cents per share will be considered at the 2013 Annual General Meeting scheduled on 19 April 2013.

RESERVES AND DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2012, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$537.4 million.

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

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$62,700.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND PRE-EMPTIVE RIGHTS

Movements in the share capital of the Company are set out in Note 23 to the financial statements.

There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under Bermuda Law.

CONVERTIBLE BONDS

During the year, the Group issued guaranteed convertible bonds in an aggregate principal amount of US$123.8 million with 1.875% per annum coupon maturing in 2018. The net proceeds from such issue, after deduction of commission and expenses, to be used by the Company primarily for the acquisition of additional Handysize and Handymax vessels as well as for general working capital purposes. Details of such issue and the movements in the other convertible bonds are disclosed in the "Financial Review" section of this Annual Report and under Note 22(c)(ii) to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

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

LONG TERM INCENTIVE SCHEME

Share awards and share options are granted to Executive Directors, senior management and other employees under the Company's Long Term Incentive Scheme ("LTIS").

(a) Purpose and Eligible Participants of the LTIS

The LTIS enables the Company to grant share awards and share options to eligible participants (and their related trusts and companies), being principally Directors and employees, as an incentive and recognition for their contribution to the Group. The LTIS incentivises performance of participants by linking part of their remuneration to the achievement of the Group. The value offered is related to job grade and contribution to the management of the business.

(b) Maximum Number of Shares

The total number of Shares which may be or have been issued by the Company or transferred to (i) the trustee of the LTIS in satisfaction of share awards and (ii) in respect of options that have been granted or to be granted, under the LTIS or any other schemes must not, in aggregate, exceed 126,701,060 Shares (representing 6.54% of the Shares in issue at 28 February 2013). There were 400,000 outstanding share options and 25,616,000 restricted shares not vested under the LTIS which represents 1.34% of the issued share capital of the Company as at 28 February 2013.

(c) Limit for Each Eligible Participant

The aggregate number of Shares issued and to be issued upon exercise of share options or vesting of share awards granted in any 12 month period to an eligible participant (including vesting of outstanding share awards and both exercised and outstanding options) shall not exceed 1% of the Shares in issue as at the date of grant.

(d) Procedure of Granting Restricted Share Awards

The Board entered into a trust deed to appoint a trustee to administer share awards under the LTIS 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 share awards. At the direction of the Board, the trustee shall either subscribe for new Shares at par from the Company or acquire existing Shares in the market in accordance with the LTIS.

(e) Basis of Determining the Exercise Price of Options

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

All notices to exercise share options shall be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given.

(f) Remaining Life of the Scheme

The LTIS will expire on 14 July 2014. The Board resolved on 28 February 2013 that a new Share Award Scheme ("SAS") should be adopted to replace the LTIS. It further resolved not to make any further grants of share options or share awards under the LTIS from such date. Please refer to page 76 for further details of the SAS.

(g) Awards Granted

Details of the grant of long-term incentives and a summary of the movements of the outstanding incentives during the year ended 31 December 2012 under the LTIS are as follows:

(i) History and Movement of Restricted Share Awards Granted

Shares '000	Date of first award	Total awarded	Vested to date	At 31 December 2012	At 1 January 2012	Granted during the year	Vested or lapsed	Vesting in July of		
								2013	2014	2015
Directors										
David M. Turnbull [1]	05-Aug-08	1,615	(650)	965	964	300	(299)	313	352	300
Mats H. Berglund [2]	01-Jun-12	2,628	–	2,628	–	2,628	–	876	876	876
Jan Rindbo	11-May-07	3,549	(1,664)	1,885	1,436	934	(485)	448	503	934
Andrew T. Broomhead	11-May-07	2,304	(859)	1,445	910	764	(229)	304	377	764
Wang Chunlin	09-Mar-06	3,176	(1,892)	1,284	1,136	615	(467)	315	354	615
Chanakya Kocherla [3]	11-May-07	1,456	(588)	868	377	685	(194)	183	257	428
Klaus Nyborg	19-Sep-06	4,624	(2,500)	–	2,124	–	(2,124)[4]	–	–	–
		19,352	(8,153)	9,075	6,947	5,926	(3,798)	2,439	2,719	3,917
Senior Management		3,157	(1,591)	1,566	1,237	773	(444)	344	449	773
Other Employees				14,975	12,334	9,430	(6,789)	3,681	4,165	7,129
				25,616	20,518	16,129	(11,031)[5]	6,464	7,333	11,819

Note:

(1) Mr. Turnbull voluntarily requested a reduction of his 2012 approved restricted share awards from 618,000 Shares to 300,000 Shares.

(2) 2,628,000 Shares were granted to Mr. Berglund on 1 June 2012 when he joined the Company as Chief Executive Officer and an Executive Director.

(3) Mr. Kocherla was appointed as an Executive Director on 25 June 2012 and 428,000 Shares for vesting on 14 July 2015 were granted to him in the second half of 2012.

(4) 2,124,000 Shares lapsed following Mr. Nyborg's resignation on 15 March 2012.

(5) 1,882,000 Shares vested due to a management buyout of a subsidiary of the Company in February 2012; 41,000 Shares vested as an employee retired; 109,000 Shares vested due to the redundancy of a staff member and 577,000 Shares lapsed as certain employees resigned.

The closing price of the Shares of the Company immediately before the grant of:

(i) 13,753,000 restricted share awards on 1 June 2012 was HK$3.47;

(ii) 257,000 restricted share awards on 22 June 2012 was HK$3.20; and

(iii) 2,119,000 restricted share awards on 28 September 2012 was HK$3.63.

(ii) Share Options and Share Valuation

Share options were granted on 14 July 2004 under the LTIS at an exercise price of HK$2.50 per share. There were 400,000 share options of Other Employees fully vested and not exercised as at 31 December 2012.

Based on a report prepared by Watson Wyatt Hong Kong Limited, the fair market values of the share options granted on 14 July 2004 based on the binomial option pricing model for the exercise period from 14 July 2005 to 13 July 2014 is HK$0.834 per share option.

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

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

2013 SHARE AWARD SCHEME

The Company's LTIS will expire in July 2014. In this connection, the Board resolved on 28 February 2013 that a new Share Award Scheme ("SAS") should be adopted to replace the LTIS. The SAS is a single share award scheme under which no share options can be granted. The Board further resolved not to make any further grants of share options or share awards under the LTIS. However all unvested awards granted under the LTIS shall remain valid until they are fully vested or lapse in accordance with the rules of the LTIS.

The SAS will be valid and effective for a term of 10 years from 28 February 2013. It will be administered by the Board in accordance with the rules of the SAS. The trustee, who currently administers the LTIS, shall hold the Shares and deal with the income derived therefrom in accordance with the terms of the trust deed.

The total number of Shares which may be issued by the Company or transferred to the trustee in satisfaction of share awards that are to be granted under the SAS must not exceed 10% of the issued share capital of the Company as at the first date of each financial year during the term of the SAS (equivalent to 193,657,711 Shares as at 1 January 2013). Such overall limit of shares may be purchased in the market or issued at par by the Company utilising either the general issue mandate or a specific mandate separately obtained from the shareholders in a general meeting of the Company.

The Board has resolved that it is in the best interests of the Company and the Shareholders as a whole to seek a specific mandate from its shareholders in a general meeting for the issue of new Shares to satisfy share awards with an annual cap of no more than 2% 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 38,731,542 Shares as at 1 January 2013), renewable by the shareholders annually in a general meeting. The Company will apply to the Stock Exchange for permission to list and to deal in, such new Shares to be issued as soon as practicable after any grant of awards.

Please refer to the related announcement published by the Company on 28 February 2013.

www.pacificbasin.com
investor relations > news
Announcement – Adoption of
2013 Share Award Scheme

DIRECTORS

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

	Date of appointment to :					
	Board	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**	**Executive Committee**	**Terms of appointment**
Executive Directors						
David M. Turnbull	17 May 2006	–	–	–	1 July 2008	3 years until 17 May 2014 or 2014 AGM
Mats H. Berglund	1 June 2012	–	–	–	1 June 2012	3 years until 31 May 2015 or 2015 AGM
Jan Rindbo	1 April 2007	–	–	–	23 January 2008	3 years until 2015 AGM
Andrew T. Broomhead	1 September 2010	–	–	–	1 January 2010	3 years until 31 August 2013 or 2013 AGM
Wang Chunlin	1 September 2006	–	–	–	1 September 2006	until 2013 AGM
Chanakya Kocherla	25 June 2012	–	–	–	25 June 2012	3 years until 24 June 2015 or 2015 AGM
Klaus Nyborg	4 September 2006	–	–	–	4 September 2006	resigned on 15 March 2012
Independent Non-executive Directors						
Patrick B. Paul	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2015 AGM
Robert C. Nicholson	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2014 AGM
Alasdair G. Morrison	1 January 2008	1 January 2008	1 January 2008	1 January 2008	–	3 years until 2015 AGM
Daniel R. Bradshaw	7 April 2006	7 April 2006	7 April 2006	7 April 2006	–	3 years until 2014 AGM

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

Messrs. Mats H. Berglund and Chanakya Kocherla, both Executive Directors appointed by the Board during the year, shall retire at the 2013 Annual General Meeting ("AGM") in accordance with the Company's Bye-law 86(2). In addition, Messrs. Andrew T. Broomhead, Wang Chunlin and Robert C. Nicholson shall retire at the 2013 AGM by rotation pursuant to the Company's Bye-laws 87(1) & (2). Except for Mr. Wang Chunlin who does not offer himself for re-election, all other retiring Directors, being eligible, offer themselves for re-election by shareholders.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming 2013 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

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

Page 67
Biographical details of Directors & Senior Management

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 2012, the discloseable interests and short positions of each Director and the Chief Executive in Shares, underlying Shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO, or (b) were required to be entered in the register maintained by the Company under Section 352 of the SFO, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Personal interests	Corporate or Family interests / Trust & similar interests	Long / Short position	Number of underlying Shares under equity derivatives	Total Share interests	Approximate percentage of the issued share capital of the Company	
						2012	2011
David M. Turnbull[1]	1,114,000	3,581,960[2]	Long	–	4,695,960	0.24%	0.08%
Mats H. Berglund[1]	3,045,003[3]	–	Long	–	3,045,003	0.16%	NA
Jan Rindbo[1]	4,490,370	–	Long	–	4,490,370	0.23%	0.18%
Andrew T. Broomhead[1]	1,445,000	2,291,402[4]	Long	–	3,736,402	0.19%	0.13%
Wang Chunlin[1]	1,284,000	–	Long	–	1,284,000	0.07%	0.06%
Chanakya Kocherla[1]	1,978,667	–	Long	–	1,978,667	0.10%	NA
Patrick B. Paul	80,000	–	Long	–	80,000	less than 0.01%	less than 0.01%
Daniel R. Bradshaw	–	386,417[5]	Long	–	386,417	0.02%	0.02%

Note:

(1) Restricted share awards were granted under the LTIS and have been disclosed on page 75 under the LTIS disclosure in this Report.

(2) 3,581,960 Shares are in the form of 335 units of convertible bonds due 2016 at face value of US$10,000 each, held by a Trust named Bentley Trust (Malta) Limited, of which Mr. Turnbull is the founder.

(3) Mr. Berglund's interest includes 417,003 Shares held in the form of 39 units of convertible bonds due 2016 at face value of US$10,000 each.

(4) 2,291,402 Shares are held via Paulatim Investments Limited which is jointly owned by Mr. Broomhead and his wife, of which 1,283,090 Shares are in the form of 120 units of convertible bonds due 2016 at face value of US$10,000 each and 312,608 Shares are in the form of convertible bonds due 2018 at nominal value of US$200,000.

(5) Mr. Bradshaw is a shareholder holding 100% and 50% of the issued share capital, respectively, of Cormorant Shipping Limited and Goldeneye Shipping Limited. He beneficially owns 353,241 Shares via Cormorant Shipping Limited and is taken to be interested in the 33,176 Shares held by Goldeneye Shipping Limited.

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2012.

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2012, 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.

				Approximate percentage of the issued share capital of the Company	
Name	**Capacity / Nature of interest**	**Long/Short Position**	**Number of Shares**	**2012**	**2011**
Aberdeen Asset Management Plc and its Associates (together the "Group") on behalf of accounts managed by the Group	Investment manager	Long	310,160,536	16.02%	9.13%
Canadian Forest Navigation Co. Ltd./ Compagnie De Navigation Canadian Forest Ltee.[1]	Beneficial owner and Interest in corporation controlled	Long	252,703,500	13.05%	13.05%
Michael Hagn	Interest in corporation controlled	Long	252,703,500	13.05%	13.05%
Mihag Holding Ltd.	Interest in corporation controlled	Long	252,703,500	13.05%	13.05%
Total Investments Inc.	Interest in corporation controlled	Long	103,256,654	5.33%	5.33%
Total Banking Corporation	Beneficial owner	Long	103,256,654	5.33%	5.33%
JP Morgan Chase & Co.[2]	Beneficial owner, Investment manager and Custodian corporation/ approved lending agent	Long Short Lending Pool	135,433,884 4,500,000 113,976,854	6.99% 0.23% 5.89%	5.05% 0.31% 4.11%
Mondrian Investment Partners Limited	Investment manager	Long	116,351,000	6.01%	8.37%
Prudential Plc	Interest in corporation controlled	Long	97,037,000	5.01%	5.06%

Note:

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

(2) The long position in Shares held by JP Morgan Chase & Co. is held in the capacities of Beneficial owner (relating to 13,741,030 Shares), Investment manager (relating to 7,716,000 Shares) and Custodian corporation/approved lending agent (relating to 113,976,854 Shares).

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2012, no other person (other than a Director or Chief Executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

CONNECTED TRANSACTION

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year, the Company has been fully compliant with all code provisions of the Corporate Governance Code (effective from 1 April 2012) as contained in Appendix 14 of the Listing Rules, as well as the former Code on Corporate Governance Practices (effective until 31 March 2012). Please also refer to the Corporate Governance Report of this Annual Report.

Page 58
Corporate Governance

AUDIT AND REMUNERATION COMMITTEES

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

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming 2013 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

Kitty Mok

Mok Kit Ting, Kitty
Company Secretary
Hong Kong, 28 February 2013

Investor Relations

INVESTOR RELATIONS AND CORPORATE COMMUNICATIONS

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

Pacific Basin received 15 investor relations and corporate governance awards in 2012. These awards represent recognition by a number of regional and global organisations of our commitment to transparent reporting and disclosure and best-practice governance standards.

STAKEHOLDER ENGAGEMENT

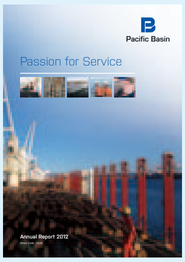
At a broad level, the Company proactively engages with institutional and retail investors as well as media and other interest groups.

In 2012, we held our first Analyst Day and conducted our first Investor Perception Study, covering our IR programme and the 2011 Annual Report. We have also revamped our website to tie in with our recently introduced integrated reporting. In 2013 we have generated our first Online Report accessible via our website so that stakeholders can access and download information in a convenient and more environmentally friendly medium.

www.pacificbasin.com/ar2012
Online Annual Report 2012

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

FINANCIAL REPORTING



- Annual and Interim Reports
- Online Annual Report (New in 2013)
- Voluntary quarterly trading updates
- Press releases on business activities

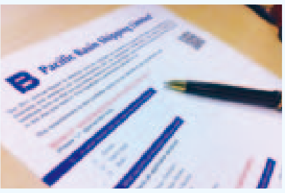
SHAREHOLDER MEETINGS AND HOTLINES

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

VESSEL TOURS

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

INVESTOR PERCEPTION STUDY (NEW IN 2012)



We consulted investors and analysts for views on our group strategy, executive management and our corporate communications, Annual Report and investor relations programme

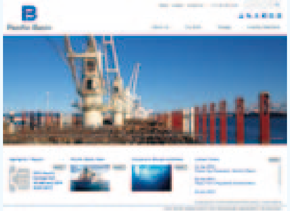
SOCIAL MEDIA COMMUNICATIONS

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

COMPANY WEBSITE – www.pacificbasin.com

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

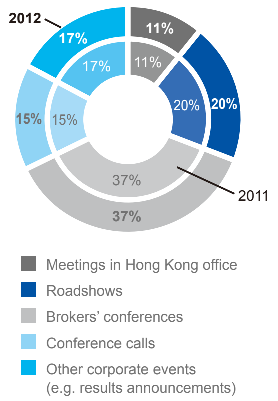
- Group's main businesses
- Fleet profile
- Board and senior management biographical data
- Corporate Governance, Risk Management and CSR
- Board Committees' Terms of Reference
- Financial information downloads in Excel
- Press kits



ROADSHOW – Roadshows are conducted every quarter following earnings results and trading updates. In 2012, we met investors in 15 cities in N. America, Europe and Asia-Pacific.

INVESTOR MEETINGS – In 2012, we met 707 (2011: 573) shareholders and investors through the following means:

Type of Investor Meetings



INVESTOR RELATIONS KPI

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

Number of Investors We Meet

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

An Analyst Day was held in May at our Hong Kong office. We discussed important numbers published in our 2011 Annual Report and 1Q Trading Update announcement. We answered questions about business strategy as well as our CSR approach. The Head of Technical Department presented his views on new eco-design ships.

Sell-Side Analyst KPIs

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

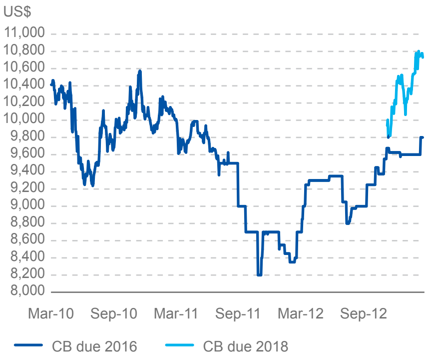
22	Analysts covering Pacific Basin in 2012
>160	Research reports on Pacific Basin in 2012
23	Analysts attending our 2012 Analyst Day

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

SHARE AND CONVERTIBLE BOND INFORMATION

Ordinary Shares Price Performance (14 July 2004 – 31 December 2012)

Convertible Bonds Price Performance (10 March 2010 – 31 December 2012)

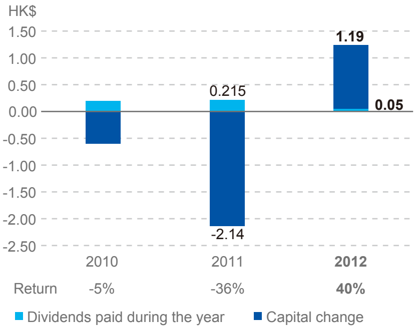


As at 31 December 2012:

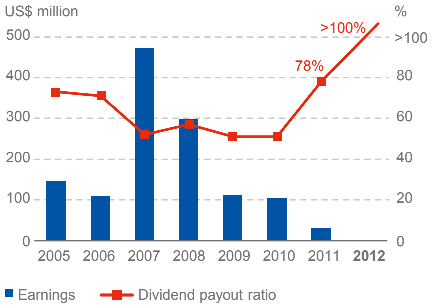
- the Company had 1,936,577,119 ordinary shares in issue, each with a par value of US$0.10
- the Group had in issue 1.75% coupon Convertible Bonds with an aggregate principal amount of US$230 million due 2016
- the Group had in issue 1.875% coupon Convertible Bonds with an aggregate principal amount of US$124 million due 2018

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

Total Shareholders' Return



Net Profit versus Dividend Payout Ratio since 2005



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

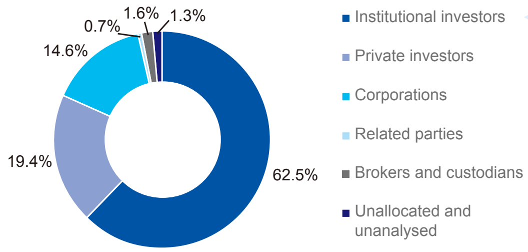
DIVIDEND

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

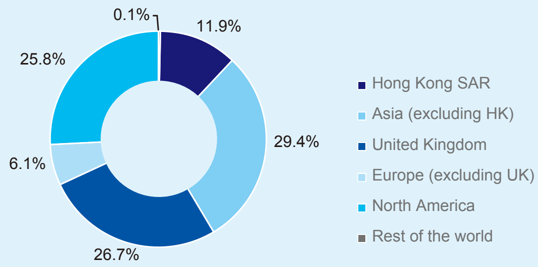
OUR SHAREHOLDERS

As at 31 December 2012, Thomson Reuters was able to analyse the ownership of about 98.8% of the Company's share capital. Institutional Investors still accounted for the largest portion of the Company's shareholder base, owning nearly 1.2 billion Shares or 62.5% of our share capital.

Type of Shareholders



Geographical Distribution of our Institutional Investors



OUR BONDHOLDERS

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

Page 121
See Financial Statement Note 22(c) for the terms and details of two Convertible Bonds

News and Achievements

2012

January

- Pacific Basin sells marine surveying and consultancy subsidiary PacMarine Services

March

- The Asset Corporate Awards – Gold Award for Social & Environmental Responsibility and Investor Relations
- HK Marine Department Green Award 2012

April

- Corporate Governance Asia – Asian Excellence Recognition Awards 2012 – Best CSR Award
- Norweigian Hull Club honours Capt. Zhu Qian Chun for leadership on board "Port Pegasus" during 2011 Japanese Tsunami
- Seatrade Asia Awards – Bulk Operator Award, CSR Award, and shortlisted for environmental protection and ship management

May

- Pacific Basin's Analyst Day is attended by 23 sell-side shipping analysts
- Pacific Basin hosts 16 teams at the inaugural Pacific Basin Soccer Sixes 2012

June

- Mats Berglund joins Pacific Basin as CEO
- Charlie Kocherla is appointed to the Board
- Institutional Investors Asia ex-Japan Executive Awards:
  - Best CFO – Andrew Broomhead – Transportation (Sell Side)
  - Best Investor Relations Professional – Emily Lau – Transportation (Sell Side)

July

- Pacific Basin enhances and formalises its dry bulk trainee programme
- Pacific Basin issues a new Environmental Policy Guide
- Corporate Governance Asia Recognition Awards 2012 – "The Best of Asia – HK" Award
- PB Towage partners with Boluda to target LNG Terminal Towage business
- "PB Leichhardt" and "PB Herbert" tugs accepted as members of Australian Marine Environmental Protection Association

September

- Sale with forward delivery of all six RoRo vessels to the Grimaldi Group for €153 million
- Pacific Basin issues Guaranteed 1.875% coupon Convertible Bonds due in 2018
- Pacific Basin 2011 Annual Report is ranked in top 100 globally by Report Watch (e.com)
- Pacific Basin launches company page on LinkedIn
- IR Global Rankings Awards – Top 5 IR Websites in Asia Pacific

October

- Introduction of whistleblowing policy
- Pacific Basin 2011 annual report wins at 2012 ARC Awards:
  - Silver Award for Cover Photo/Design: Marine Transportation
  - Bronze Award for Overall Annual Report: Marine Transportation
  - Bronze Award for Overall Annual Report: Shipping Services
- Galaxy Awards 2012:
  - Bronze in Annual Report (Traditional) – Asia Pacific
  - Bronze in Transportation

November

- USCG recognition for participation AMVER (Automated in Mutual Assistance Vessel Rescue System)
- PB Towage supports Mission to Seafarers Victoria with inaugural PB Towage People's Choice Award
- Lloyd's List Shipping and Maritime Industry Awards – PB Towage Australia receives high commendation for safety
- IBJ Awards 2012 – Pacific Basin wins Environmental Protection Award
- Sale of minority stake in a cargo terminal in Nanjing
- Hong Kong Institute of Certified Public Accountants (HKICPA) Best Corporate Governance Disclosure Awards 2012 – Pacific Basin receives special mention among large cap companies
- Lloyd's List Asia Award 2012 – high commendation in ship management category, and shortlisted for ship operator, safety, training and environment awards

December

- Pacific Basin players are runner-up at the Noble Cricket Sixes
- Pacific Basin wins four awards in IR Magazine Award 2012 – Greater China:
  - Best Investor Relations by a CFO – HK (Andrew Broomhead)
  - Best Investor Relations by a CEO – HK (Klaus Nyborg)
  - Best Corporate Governance and Disclosure
  - Best IR in Sector – Industrials, Logistics & Transport

  Shortlisted in four categories:
  - Grand Prix-mid/small Cap
  - Best Investor Relations by a HK Company
  - Best Investor Relations Officer – HK (Emily Lau)
  - Best Corporate Literature

2013

January

- Delivery of first in our new generation of enhanced, fuel-efficient 37,000 dwt Handysize ships from JNS shipyard
- Awarded Silver Label by WWF's Low-carbon Office Operation Programme (LOOP)
- Pacific Basin supports Hong Kong Fair Winds Charter

www.pacificbasin.com
about us > recognition & awards

Our People

Precision matters

My newbuilding supervision team and I are passionate about our delivery of quality control at the shipyard where our latest generation of Handysize bulk carriers is being constructed. This is the second series of ships we have contracted to build at this yard and, once again, we work hand-in-hand with the shipbuilder and classification society to ensure our ships are of high build quality and reliability to match their enhanced design and specification. Driving this passion and teamwork is the knowledge that Pacific Basin will have the hardware to provide our customers with the class-leading reliability of service they have come to expect of us.

Our relationship with the shipyard is more than just a supervisory one. Pacific Basin's senior management, asset management and technical management teams maintain a close relationship with our shipbuilders. We consider ourselves to be their partners, and in return we can expect all involved to benefit from a long and mutually-beneficial association.

Cristinel Coman
Pacific Basin Newbuilding Site Manager
stationed at JNS Shipyard
Jiangmen, China

Financial Statements

Audited P.86-138

Consolidated Balance Sheet

US$ 1,332m

Net assets

Total Cash and Deposits

US$ 753m

Basic EPS

HK$0.21 on continuing operations and HK$(0.64)overall

RoRo Reclassification

Following the agreement to dispose of our RoRo vessels, PB RoRo assets, liabilities and operating results have been reclassified and are separately shown in the financial statements as discontinued operations.

www.pacificbasin.com/ar2012
Download our Financial Statements in excel files from our online report

Consolidated Balance Sheet

	Note	As at 31 December 2012 US$'000	 2011 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,270,202**	1,525,185
Investment properties	7	**2,675**	2,734
Land use rights	8	**3,767**	3,874
Goodwill	9	**25,256**	25,256
Interests in jointly controlled entities	11(a)	**22,118**	44,403
Investments in associates	12	**1,332**	4,411
Available-for-sale financial assets	13	**4,729**	11,533
Derivative assets	14	**5,075**	361
Trade and other receivables	15	**58,039**	5,175
Restricted bank deposits	16	**50,192**	8,566
Other non-current assets	17	**5,322**	4,400
		1,448,707	1,635,898
Current assets			
Inventories	18	**79,102**	66,873
Derivative assets	14	**1,747**	5,303
Structured notes	19	**–**	12,913
Trade and other receivables	15	**106,044**	101,110
Restricted bank deposits	16	**70,148**	11,154
Cash and deposits	16	**633,118**	598,501
		890,159	795,854
Assets of discontinued operations classified as held for sale	21(a)	**131,409**	–
		1,021,568	795,854
Total assets	4(b)	**2,470,275**	2,431,752
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	23	**193,605**	193,658
Retained profits	24	**537,456**	708,463
Other reserves	24	**600,960**	582,794
Total equity		**1,332,021**	1,484,915

	Note	As at 31 December **2012** **US$'000**	 2011 US$'000
LIABILITIES			
Non-current liabilities			
Derivative liabilities	14	**22,684**	19,563
Long term borrowings	22	**853,651**	713,716
		876,335	733,279
Current liabilities			
Derivative liabilities	14	**2,449**	1,298
Trade and other payables	20	**174,884**	144,798
Current portion of long term borrowings	22	**77,820**	65,323
Taxation payable		**2,509**	2,139
		257,662	213,558
Liabilities of discontinued operations classified as held for sale	21(a)	**4,257**	–
		261,919	213,558
Total liabilities	4(b)	**1,138,254**	946,837
Net current assets		**759,649**	582,296
Total assets less current liabilities		**2,208,356**	2,218,194

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See Note 4(b) for more on balance sheet segment information

Approved by the Board of Directors on 28 February 2013

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Balance Sheet of the Company

	Note	As at 31 December 2012 US$'000	 2011 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	**835,918**	631,836
Current assets			
Prepayments and other receivables		**136**	76
Amounts due from subsidiaries	10	**974,839**	1,078,579
Cash and cash equivalents	16	**17**	13
		974,992	1,078,668
Total assets		**1,810,910**	1,710,504
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	23	**193,605**	193,658
Retained profits	24	**680,359**	695,977
Other reserves	24	**596,739**	599,331
Total equity		**1,470,703**	1,488,966
LIABILITIES			
Current liabilities			
Accruals and other payables		**182**	206
Amounts due to subsidiaries	10	**340,025**	221,332
Total liabilities		**340,207**	221,538
Net current assets		**634,785**	857,130
Total assets less current liabilities		**1,470,703**	1,488,966

Approved by the Board of Directors on 28 February 2013

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Consolidated Income Statement

	Note	For the year ended 31 December 2012 US$'000	 2011 US$'000 (restated)
Continuing operations			
Revenue	4(a)	**1,443,086**	1,312,789
Direct costs	4(a), 5	**(1,361,219)**	(1,204,352)
Gross profit		**81,867**	108,437
General and administrative expenses	4(a), 5	**(10,838)**	(10,754)
Other income and gains	25	**2,644**	67,173
Other expenses	5	**(4,095)**	(11,070)
Finance costs, net	26	**(18,474)**	(28,785)
Share of profits less losses of jointly controlled entities	11	**5,508**	225
Share of profits less losses of associates	12	**(2,767)**	(2,468)
Profit before taxation		**53,845**	122,758
Taxation	27	**(1,624)**	(178)
Profit for the year		**52,221**	122,580
Discontinued operations			
Loss for the year	21(b)	**(210,693)**	(90,598)
(Loss)/profit attributable to shareholders		**(158,472)**	31,982
Dividends	29	**12,482**	24,895
Earnings per share for (loss)/profit attributable to shareholders (in US cents)			
Basic earnings per share	30(a)		
From continuing operations		**2.70**	6.33
From discontinued operations		**(10.90)**	(4.68)
From (loss)/profit attributable to shareholders		**(8.20)**	1.65
Diluted earnings per share	30(b)		
From continuing operations		**2.70**	6.33
From discontinued operations		**(10.69)**	(4.68)
From (loss)/profit attributable to shareholders		**(7.99)**	1.65

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See Note 4(a) for more on income statement segment information
Comparatives on income statement are restated due to the discontinued RoRo operations classified as held for sale

Consolidated Statement of Comprehensive Income

	For the year ended 31 December 2012 US$'000	 2011 US$'000
(Loss)/profit attributable to shareholders	(158,472)	31,982
Other comprehensive income		
Release of exchange reserve upon disposal of:		
– property, plant and equipment	8,183	–
– a jointly controlled entity	(3,131)	–
Cash flow hedges:		
– transferred to finance costs in income statement	5,608	3,598
– fair value losses	(3,231)	(7,196)
Fair value (losses)/gains on available-for-sale financial assets	(5,587)	22,884
Currency translation differences	(402)	(953)
Release of investment valuation reserve upon disposal of available-for-sale financial assets	–	(60,502)
Impairment of available-for-sale financial assets charged to income statement	–	910
Total comprehensive income attributable to shareholders	(157,032)	(9,277)

Consolidated Statement of Changes in Equity

	Note	For the year ended 31 December 2012 US$'000	 2011 US$'000
Balance at 1 January		1,484,915	1,544,891
Equity component of convertible bonds issued		19,318	–
Share-based compensation		4,668	4,213
Shares purchased by trustee of the LTIS	23	(7,369)	(1,477)
Dividends paid	29	(12,479)	(53,435)
Total comprehensive income attributable to shareholders		(157,032)	(9,277)
Balance at 31 December		1,332,021	1,484,915

Consolidated Cash Flow Statement

	Note	For the year ended 31 December 2012 US$'000	2011 US$'000
Operating activities			
Cash generated from operations	31	**150,053**	160,455
Hong Kong profits tax paid		**(168)**	(949)
Overseas taxation paid		**(1,148)**	(145)
Net cash from operating activities		**148,737**	159,361
Investing activities			
Purchase of property, plant and equipment		**(190,028)**	(170,120)
Disposal of property, plant and equipment		**–**	3,261
Disposal of RoRo vessels		**13,708**	–
Payment for other non-current assets		**(5,322)**	(4,400)
Increase in restricted bank deposits		**(100,395)**	(5,549)
Increase in term deposits		**(22,616)**	(68,415)
Disposal of a jointly controlled entity		**22,502**	–
Dividends received from a jointly controlled entity		**972**	10,080
Loan repayment received from jointly controlled entities		**957**	7,090
Interest received		**16,742**	12,867
Disposal of notes receivable and structured notes		**13,219**	124,773
Purchase of notes receivable and structured notes		**–**	(87,718)
Receipt of finance lease receivables – capital element		**1,618**	1,440
Purchase of available-for-sale financial assets		**(1,576)**	(2,378)
Refund of available-for-sale financial assets		**1,393**	1,954
Disposal of available-for-sale financial assets		**–**	80,573
Disposal of subsidiaries		**1,226**	–
Investment in an associate		**–**	(6,968)
Loan repayment received from an associate		**–**	67
Net cash used in investing activities		**(247,600)**	(103,443)
Financing activities			
Proceeds from issuance of convertible bonds, net of issuing expenses		**122,850**	–
Drawdown of bank loans		**118,269**	184,400
Repayment of bank loans		**(60,791)**	(138,685)
Interest and other finance charges paid		**(33,250)**	(35,949)
Repayment of finance lease liabilities – capital element		**(17,049)**	(15,976)
Dividends paid to shareholders of the Company		**(12,479)**	(53,435)
Payment for shares purchased by trustee of the LTIS	23	**(7,369)**	(1,477)
Payment for repurchase and cancellation of convertible bonds		**–**	(105,200)
Net cash from/(used in) financing activities		**110,181**	(166,322)
Net increase/(decrease) in cash and cash equivalents		**11,318**	(110,404)
Cash and cash equivalents at 1 January		**378,501**	488,151
Exchange gains on cash and cash equivalents		**683**	754
Cash and cash equivalents at 31 December	16	**390,502**	378,501
Term deposits at 31 December	16	**242,616**	220,000
Cash and deposits at 31 December	16	**633,118**	598,501

Notes to the Financial Statements

1 INTRODUCTION

1.1 General information

Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the provision of dry bulk shipping services internationally, and Towage services to the harbour and offshore sectors in Australia and New Zealand. In addition, the Group is engaged in the management and investment of the Group's cash and deposits through its treasury activities.

The Company was incorporated in Bermuda on 10 March 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These financial statements have been approved for issue by the Board of Directors on 28 February 2013.

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 2.2.

Critical Accounting Estimates and Judgements

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

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

- Market Risks (P.53)
- Credit & Counterparty Risk (P.54)
- Liquidity Risk (P.54)
- Capital Management Risk (P.55)

2 BASIS OF PREPARATION

2.1 Objective and accounting standards

The objective of these consolidated financial statements is to explain the results of the year ended 31 December 2012 and the financial position of the Group on that date, together with comparative information.

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

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

Page 52
Risk Management section

2 BASIS OF PREPARATION (continued)

2.2 Accounting policies navigator

Accounting policies	Location
Assets and liabilities of discontinued operations classified as held for sale	Note 21
Available-for-sale financial assets	Note 13
Borrowing costs	Note 6
Borrowings including convertible bonds	Note 22
Cash and cash equivalents	Note 16
Consolidation	
Associates	Note 12
Jointly controlled entities	Note 11(a)
Jointly controlled operation	Note 11(b)
Subsidiaries	Note 10
Contingent liabilities and contingent assets	Note 36
Current and deferred income tax	Note 27
Derivative financial instruments and hedging activities for cash flow hedges and derivatives not qualifying for hedge accounting	Note 14
Dividends	Note 29
Employee benefits	Remuneration Report (P.73)
Finance leases	
Where the Group is the lessor	Note 15 (a)
Where the Group is the lessee	Note 22 (a)
Financial assets at fair value through profit or loss	Note 14
Financial guarantee contracts	Note 35
Foreign currency translation	Note 2.4
Goodwill	Note 9
Impairment of investments in subsidiaries, jointly controlled entities and associates, non-financial assets, available-for-sale financial assets and trade and other receivables	Note 5
Inventories	Note 18
Investment properties	Note 7
Land use rights	Note 8
Loans and receivables	Note 15
Operating leases where the Group is the lessor or lessee	Note 32 (b)
Property, plant and equipment ("PP&E") including: i) vessels and vessel component costs, ii) vessels under construction, iii) other property, plant and equipment, iv) subsequent expenditure, v) depreciation, vi) residual value and useful lives, and vii) gains or losses on disposal	Note 6
Provisions	Note 2.5
Revenue recognition for freight and charter-hire, and other revenue	Note 4
Segment reporting	Note 4
Share capital	Note 23
Trade and other receivables	Note 15
Trade payables	Note 20

Except as described in Note 2.3, the Group's principal accounting policies have been consistently applied to each of the years presented in these financial statements. Certain comparative figures have been reclassified to conform to the current year's presentation.

Notes to the Financial Statements continued

2 BASIS OF PREPARATION (continued)

2.3 Impact of new accounting policies

Certain new standards, amendments and improvements to standard are mandatory for the accounting period beginning 1 January 2012. However, the adoption of these new standards, amendments and improvements to standard does not result in any substantial change to the Group's accounting policies.

Certain new and amended standards, and improvements to HKFRS ("New Standards") are mandatory for accounting period beginning after 1 January 2012. The Group was not required to adopt these New Standards in the financial statements for the year ended 31 December 2012. Such New Standards that are relevant to the Group's operation are as follows:

HKAS 1 (Amendments)	Presentation of financial statements
HKAS 27 (Amendments)	Separate financial statements
HKAS 28 (Revised 2012)	Associates and joint ventures
HKAS 32 (Amendments)	Financial instruments: Presentation
HKFRS 7 (Amendments)	Financial instruments: Disclosures
HKFRS 7 & 9 (Amendments)	Mandatory effective date and transition disclosure
HKFRS 9	Financial instruments
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurements
HKFRS 10, 11 and 12 (Amendments)	Transition guidance
Annual improvements 2011	

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

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(i) PB Towage Segment: Australian Dollars, New Zealand Dollars and United States Dollars

(ii) The discontinued PB RoRo Segment: principally Euro

(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 "general and administrative expenses" of the income statement, except when deferred in equity as qualifying cash flow hedges.

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

2 BASIS OF PREPARATION (continued)

2.4 Foreign currency translation (continued)

(c) Group companies

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

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

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

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

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

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

2.5 Provisions

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Critical Accounting Estimates and Judgements	Location
(a) Residual values of property, plant and equipment	Note 6
(b) Useful lives of vessels and vessel component costs	Note 6
(c) Impairment of vessels and vessels under construction	Note 6
(d) Classification of leases	Note 15(a) & 32(b)
(e) Income taxes	Note 27

Notes to the Financial Statements continued

4 SEGMENT INFORMATION

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

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

The results of the port projects and maritime services activities are included in the "All Other Segments" column as they do not meet the quantitative thresholds suggested by HKFRS.

"Treasury" manages the Group's cash and borrowings. As such, related finance income and expenses are allocated under "Treasury".

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

Accounting policy – Segment reporting

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

Accounting policy – Revenue recognition

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

(i) Freight and charter-hire

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

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

(ii) Other revenue

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

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

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

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

4 SEGMENT INFORMATION (continued)

(a) Income statement segment information

For the year ended 31 December 2012 US$'000	Pacific Basin Dry Bulk	PB[1] Towage	All Other Segments	Total Segments	Unallocated Treasury	Unallocated PB RoRo	Unallocated Others	Total	Reclass-ification	Per Financial Statements
Continuing operations										
Revenue	1,292,417	149,516	805	1,442,738	–	–	214	1,442,952	134	1,443,086
Freight and charter-hire	1,292,417[2]	140,409	–	1,432,826	–	–	214[2]	1,433,040	134[2]	1,433,174
Maritime management services	–	9,107	805	9,912	–	–	–	9,912	–	9,912
Bunkers & port disbursements	(679,285)[3]	(3,582)	–	(682,867)	–	–	(3,969)[3]	(686,836)	686,836[3]	–
Time charter equivalent earnings	613,132									
Direct costs	(558,927)	(112,008)	(3,448)	(674,383)	–	–	–	(674,383)	(686,836)	(1,361,219)
Bunkers & port disbursements	–	–	–	–	–	–	–	–	(686,836)	(686,836)
Charter-hire expenses for vessels	(400,152)	(12,150)	–	(412,302)	–	–	–	(412,302)	–	(412,302)
Vessel operating costs	(74,580)	(68,372)	–	(142,952)	–	–	–	(142,952)	–	(142,952)
Depreciation of vessels	(48,910)	(13,864)	–	(62,774)	–	–	–	(62,774)	–	(62,774)
Direct overheads	(35,285)	(17,622)	(3,448)	(56,355)	–	–	–	(56,355)	–	(56,355)
Gross profit	54,205	33,926	(2,643)	85,488	–	–	(3,755)	81,733	134	81,867
General and administrative expenses	–	–	–	–	(2,289)	–	(8,549)[4]	(10,838)	–	(10,838)
Other income and expenses	–	–	51	51	32	–	(1,400)[5]	(1,317)	(134)[2]	(1,451)
Finance costs, net	(14,930)	(953)	741	(15,142)	(3,781)	–	449[6]	(18,474)	–	(18,474)
Share of profits less losses of jointly controlled entities	–	5,384	124	5,508	–	–	–	5,508	–	5,508
Share of profits less losses of associates	–	233	–	233	–	–	(3,000)[7]	(2,767)	–	(2,767)
Profit/(loss) before taxation	39,275	38,590	(1,727)	76,138	(6,038)	–	(16,255)	53,845	–	53,845
Taxation	–	(880)	(744)	(1,624)	–	–	–	(1,624)	–	(1,624)
Profit/(loss) for the year	39,275	37,710	(2,471)	74,514	(6,038)	–	(16,255)	52,221	–	52,221
Discontinued operations										
Loss for the year	–	–	–	–	–	(12,112)[9]	(198,581)[9]	(210,693)	–	(210,693)
Profit/(loss) attributable to shareholders	39,275	37,710	(2,471)	74,514	(6,038)	(12,112)	(214,836)	(158,472)	–	(158,472)

(1) PB Towage, formerly known as PB Energy & Infrastructure Services, was renamed following the sale of PacMarine and closure of FBSL. Results of PacMarine and FBSL are under "All Other Segments".

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

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

(4) Represents corporate overheads.

(5) Represents the impairment charge of US$1.4 million on unlisted equity securities.

(6) Represents net unrealised interest rate swap contract benefits and expenses.

(7) Represents the impairment charge of US$3.0 million on the Gold River Terminal Project.

(8) Represents gains on disposal of investment of US$55.8 million in Green Dragon Gas Limited in 2011.

(9) Comparatives are restated due to the discontinued RoRo operations classified as held for sale. The amount under "Unallocated Others" represents an impairment charge of US$190.4 million (2011: US$80.0 million) and an exchange loss arising from the disposal amounting to US$8.2 million (2011: Nil). Please see Note 21 for details.

Notes to the Financial Statements continued

4 SEGMENT INFORMATION (continued)

(a) Income statement segment information (continued)

For the year ended 31 December 2011 (restated) US$'000	Pacific Basin Dry Bulk	PB [1] Towage	All Other Segments	Total Segments	Unallocated			Total	Reclass-ification	Per Financial Statements
					Treasury	PB RoRo	Others			
Continuing operations										
Revenue	1,194,971	102,513	14,665	1,312,149	–	–	900	1,313,049	(260)	1,312,789
Freight and charter-hire	1,194,971 [2]	93,837	–	1,288,808	–	–	900 [2]	1,289,708	(260) [2]	1,289,448
Maritime management services	–	8,676	14,665	23,341	–	–	–	23,341	–	23,341
Bunker & port disbursements	(536,180) [3]	(2,843)	–	(539,023)	–	–	(1,159) [3]	(540,182)	540,182 [3]	–
Time charter equivalent earnings	658,791									
Direct costs	(562,300)	(84,391)	(15,448)	(662,139)	–	–	–	(662,139)	(542,213)	(1,204,352)
Bunkers & port disbursements	–	–	–	–	–	–	–	–	(540,182)	(540,182)
Charter-hire expenses for vessels	(420,951)	(3,508)	–	(424,459)	–	–	–	(424,459)	(2,031)	(426,490)
Vessel operating costs	(63,395)	(48,684)	–	(112,079)	–	–	–	(112,079)	–	(112,079)
Depreciation of vessels	(45,808)	(15,061)	–	(60,869)	–	–	–	(60,869)	–	(60,869)
Direct overheads	(32,146)	(17,138)	(15,448)	(64,732)	–	–	–	(64,732)	–	(64,732)
Gross profit	96,491	15,279	(783)	110,987	–	–	(259)	110,728	(2,291)	108,437
General and administrative expenses	–	–	–	–	(2,479)	–	(8,275) [4]	(10,754)	–	(10,754)
Other income and expenses	–	(85)	(1,885)	(1,970)	(21)	–	55,803 [8]	53,812	2,291 [2]	56,103
Finance costs, net	(15,071)	(2,950)	941	(17,080)	(10,320)	–	(1,385) [6]	(28,785)	–	(28,785)
Share of profits less losses of jointly controlled entities	–	5,783	(5,558)	225	–	–	–	225	–	225
Share of profits less losses of associates	–	(2,468)	–	(2,468)	–	–	–	(2,468)	–	(2,468)
Profit/(loss) before taxation	81,420	15,559	(7,285)	89,694	(12,820)	–	45,884	122,758	–	122,758
Taxation	–	(371)	193	(178)	–	–	–	(178)	–	(178)
Profit/(loss) for the year	81,420	15,188	(7,092)	89,516	(12,820)	–	45,884	122,580	–	122,580
Discontinued operations										
Loss for the year	–	–	–	–	–	(10,598) [9]	(80,000) [9]	(90,598)	–	(90,598)
Profit/(loss) attributable to shareholders	81,420	15,188	(7,092)	89,516	(12,820)	(10,598)	(34,116)	31,982	–	31,982

4 SEGMENT INFORMATION (continued)

(b) Balance sheet segment information

At 31 December 2012 **US$'000**	**Pacific Basin Dry Bulk**	**PB[1] Towage**	**All Other Segments**	**Total Segments**	**Unallocated Treasury**	**Unallocated PB RoRo**	**Unallocated Others**	**Per Financial Statements**
Total assets	**1,292,280**	**273,161**	**18,677**	**1,584,118**	**744,584**	**131,409**	**10,164**[2,3]	**2,470,275**
include:								
Property, plant and equipment	**1,056,981**	**207,777**	**5,444**	**1,270,202**	**–**	**–**	**–**	**1,270,202**
– Include additions to PP&E	**170,677**	**3,574**	**1,733**	**175,984**	**–**	**19,366**	**–**	**195,350**
Interests in jointly controlled entities	**–**	**18,777**	**–**	**18,777**	**–**	**–**	**3,341**	**22,118**
Investments in associates	**–**	**1,332**	**–**	**1,332**	**–**	**–**	**–**	**1,332**
Total cash and deposits	**50,088**	**23,500**	**64**	**73,652**	**679,761**	**–**	**45**	**753,458**
Total liabilities	**437,013**	**55,276**	**1,597**	**493,886**	**617,827**	**4,257**	**22,284**[2,3]	**1,138,254**
include:								
Long term borrowings	**301,272**	**31,079**	**–**	**332,351**	**599,120**	**–**	**–**	**931,471**

Pacific Basin Dry Bulk – Total assets:
- *Vessels delivered & under construction*
- *Goodwill*

All Other Segments – Total assets:
- *Properties*
- *Finance lease receivables*

Treasury – Total assets:
- *Group unallocated cash*

Others – Total assets:
- *Derivative assets*

PB Towage – Interests in jointly controlled entities:
- *Gold River Marine Terminal, Canada*

PB Towage – Investments in associates:
- *OMSA*
- *Bunker tanker, N.Z.*

Pacific Basin Dry Bulk – Long term borrowings:
- *Bank loans*
- *Finance lease liabilities*

PB Towage – Long term borrowings:
- *Bank loans*

Treasury – Long term borrowings:
Group general facilities include:
- *Convertible bonds*
- *Loans secured on vessels for future expansion*

Others – Total liabilities:
- *Derivative liabilities*

At 31 December 2011 US$'000	Pacific Basin Dry Bulk	PB[1] Towage	All Other Segments	Total Segments	Unallocated Treasury	Unallocated PB RoRo	Unallocated Others	Per Financial Statements
Total assets	1,106,582	289,512	55,666	1,451,760	595,774	375,226	8,992[2,3]	2,431,752
include:								
Property, plant and equipment	936,136	213,565	5,495	1,155,196	–	369,989	–	1,525,185
– Include additions to PP&E	120,244	8,982	2,528	131,754	–	38,366	–	170,120
Interests in jointly controlled entities	–	13,974	26,507	40,481	–	594	3,328	44,403
Investments in associates	–	4,411	–	4,411	–	–	–	4,411
– Include additions to investment in an associate	–	–	–	–	–	6,968	–	6,968
Total cash and deposits	3,843	33,529	69	37,441	580,735	–	45	618,221
Total liabilities	406,436	57,751	4,464	468,651	400,876	52,299	25,011[2,3]	946,837
include:								
Long term borrowings	297,682	34,362	–	332,044	398,603	48,392	–	779,039

Notes to the Financial Statements continued

5 EXPENSES BY NATURE

US$'000	2012	2011 (restated)
Bunkers consumed	445,275	367,120
Operating lease expenses		
– vessels	412,302	426,490
– land and buildings	3,730	3,753
Port disbursements and other voyage costs	245,202	189,155
Depreciation		
– owned vessels	50,845	49,436
– leased vessels	11,929	11,433
– other owned property, plant and equipment	1,612	1,503
– investment properties	65	64
Amortisation of land use rights	115	113
Employee benefit expenses including Directors' emoluments (see Remuneration Report)	47,200	51,309
Lubricating oil consumed	5,931	5,900
Net gains on bunker swap contracts	(4,566)	(14,906)
Losses on forward freight agreements	2,619	9,067
Provision for/(write-back of) impairment losses		
– Trade receivables	1,801	(620)
– Available-for-sale financial assets	1,400	1,887
Auditors' remuneration		
– audit	1,731	1,439
– non-audit	506	247
Net exchange losses	592	2,526
Net losses on forward foreign exchange contracts	482	–
Fair value losses on structured notes	–	32
Vessel and other expenses	147,381	120,228
Total of (i) "direct costs", (ii) "general and administrative expenses" and (iii) "other expenses"	1,376,152	1,226,176

General and administrative expenses

The Group incurred total administrative expenses of US$68.1 million (2011: US$77.2 million). Total administrative expenses comprised i) direct overheads of US$57.3 million (2011: US$66.4 million) including US$0.9 million (2011: US$1.8 million) for discontinued operations and ii) general and administrative expenses of US$10.8 million (2011: US$10.8 million). The decrease of US$9.1 million in direct overheads was primarily due to the sale of PacMarine business.

Depreciation

Owned vessels depreciation of US$50.8 million (2011: US$49.4 million) excludes an amount of US$7.9 million (2011: US$11.0 million) in relation to the RoRo vessels as this has been reclassified as part of the loss for the year on discontinued operations.

Other expenses

Movements in the fair value and payments for forward freight agreements amounted to US$2.6 million (2011: US$9.0 million). Taking into account the movements in fair value and receipts of US$2.5 million (2011: US$9.3 million) included in other income, the net movement in the fair value and payments for forward freight agreements resulted in an expense of US$0.1 million (2011: income of US$0.3 million).

5 EXPENSES BY NATURE (continued)

Accounting policy – Impairment

Impairment of investments and non-financial assets

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

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

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

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

Impairment of available-for-sale financial assets

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

Impairment of trade and other receivables

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

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT

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

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

6 PROPERTY, PLANT AND EQUIPMENT (continued)

	Group						
US$'000	Vessels and vessel component costs	Vessels under construction	Buildings	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
Cost							
At 1 January 2011	1,380,865	335,939	3,148	3,515	4,942	212	1,728,621
Additions	81,447	86,145	–	141	2,387	–	170,120
Write off	(8,844)	–	–	–	–	–	(8,844)
Disposals	(3,867)	–	–	–	(106)	–	(3,973)
Exchange differences	(22,992)	5,552	89	(6)	3	4	(17,350)
Reclassification	242,748	(242,748)	–	–	–	–	–
At 31 December 2011	1,669,357	184,888	3,237	3,650	7,226	216	1,868,574
Accumulated depreciation and impairment							
At 1 January 2011	180,691	22,500	205	2,683	3,789	121	209,989
Charge for the year	71,911	–	89	325	1,042	47	73,414
Write off	(8,844)	–	–	–	–	–	(8,844)
Disposals	(607)	–	–	–	(105)	–	(712)
Impairment charge	50,665	29,335	–	–	–	–	80,000
Exchange differences	(8,497)	(1,981)	20	(7)	5	2	(10,458)
Reclassification	29,893	(29,893)	–	–	–	–	–
At 31 December 2011	315,212	19,961	314	3,001	4,731	170	343,389
Net book value **At 31 December 2011**	1,354,145	164,927	2,923	649	2,495	46	1,525,185
Estimated useful lives for the year ended 2011	Dry bulk vessels: 25 years Towage vessels: 30 years RoRo vessels: 30 years Vessels under construction: N/A Vessel component costs: estimated period to the next drydocking		50 years	4 to 5 years or the remaining lease period if shorter	3 to 5 years	4 to 5 years	

Estimated useful lives for towage vessels changed from 25 years to 30 years effective from 1 July 2011. The change in useful lives decreased the depreciation charge for 2012 by US$2,478,000 (2011: US$1,336,000).

As at 31 December 2012:

(a) Vessels and vessel component costs

	2012		2011	
US$'000	Aggregate cost	Accumulated depreciation	Aggregate cost	Accumulated depreciation
Vessel component costs	**43,593**	**(26,596)**	41,844	(21,734)
Vessels and vessel component costs under finance leases	**241,699**	**(85,683)**	240,870	(78,105)

(b) Certain owned vessels of net book value of US$695,556,000 (2011: US$548,532,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 22(b)(i)).

(c) Vessels under construction includes an amount of US$2,949,000 (2011: US$73,778,000) paid by the Group in relation to vessels whose construction work had not yet commenced.

(d) During the year, the Group had capitalised borrowing costs amounting to US$3,642,000 (2011: US$1,280,000) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of 3.2% of the Group's unhedged borrowings not allocated to the two business segments (Note 26).

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting policies – Property, plant and equipment

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

Vessels and vessel component costs

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

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

Vessels under construction

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

Borrowing costs

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

Other property, plant and equipment

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

Subsequent expenditure

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

Depreciation

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

Residual values and useful lives

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

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

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

Gains or losses on disposal

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

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Critical accounting estimates and judgements –

Residual values of property, plant and equipment

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

- *Sensitivity analysis:*

With all other variables held constant, if the residual value increases/decreases by 10% from management estimates, the depreciation expense would decrease/increase by US$0.8 million in the next year.

Useful lives of vessels and vessel component costs

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

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

- *Sensitivity analysis:*

With all other variables held constant, if the useful lives increase/decrease by 3 years from management estimates, the depreciation expense would decrease by US$9.3 million or increase by US$13.6 million in the next year.

Impairment of vessels and vessels under construction

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

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. The applicable discount rates applied for future cash flows in each segment for 2012 are as follow:

i) Pacific Basin Dry Bulk: 7.9% (2011: 8.7%)
ii) PB Towage: 8.1% (2011: 8.7%)

- *Sensitivity analysis:*

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

7 INVESTMENT PROPERTIES

	Group	
US$'000	**2012**	2011
At 1 January	**2,734**	2,664
Depreciation	**(65)**	(64)
Exchange difference	**6**	134
At 31 December	**2,675**	2,734
Estimated useful lives	**45 years**	45 years

The investment properties were valued at 31 December 2012 by an independent qualified valuer on the basis of market value. The fair value of the investment properties was approximately US$4,192,000 (2011: US$4,092,000).

Accounting policy

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

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

Notes to the Financial Statements continued

8 LAND USE RIGHTS

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

	Group	
US$'000	2012	2011
At 1 January	**3,874**	3,815
Amortisation	**(115)**	(113)
Exchange difference	**8**	172
At 31 December	**3,767**	3,874

Accounting policy

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

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

9 GOODWILL

	Group	
US$'000	2012	2011
At 1 January/31 December	**25,256**	25,256

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

The recoverable amount of Pacific Basin Dry Bulk to which the goodwill relates has been determined based on a value-in-use calculation over its useful life. The calculation is based on a one-year budget and a further two-year outlook. Key assumptions were based on past performance, management's expectations on market development and general inflation. Cash flows beyond the three year period are extrapolated assuming zero growth and no material change in the existing scope of business, business environment and market conditions. The discount rate applied to the cash flow projections is 7.9% (2011: 8.7%) reflecting the Group's cost of capital.

Based on the assessment performed, no impairment provision against the carrying value of goodwill is considered necessary.

Accounting policy

Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold. It is tested annually for impairment in accordance with the accounting policy on impairment in Note 5. Impairment losses on goodwill are not reversible.

10 SUBSIDIARIES

	Company	
US$'000	2012	2011
Non-current assets		
Unlisted investments, at cost	**835,918**	631,836
Current assets		
Amounts due from subsidiaries	**974,839**	1,078,579
Current liabilities		
Amounts due to subsidiaries	**(340,025)**	(221,332)

The amounts due from and to subsidiaries are unsecured, non-interest bearing and repayable on demand.

The carrying values of amounts due from and to subsidiaries approximate their fair values due to the short-term maturities of these assets and liabilities.

Details of principal subsidiaries of the Group as at 31 December 2012 are set out in Note 38.

Accounting policy – Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights.

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.

10 SUBSIDIARIES (continued)

Accounting policy – Consolidation (continued)

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

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

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

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

11 INTERESTS IN JOINT VENTURES

(a) Jointly controlled entities

	Group	
US$'000	**2012**	2011
Share of net assets	**18,892**	40,220
Equity loan to a jointly controlled entity (Note)	**3,226**	4,183
	22,118	44,403

Note: The equity loan to Seafuels Limited is unsecured, non-interest bearing, and has no fixed repayment terms and the Group does not intend to request for repayment within twelve months.

An analysis of the Group's effective share of assets, liabilities, revenue and expenses of the jointly controlled entities is set out below:

	Group	
US$'000	**2012**	2011
Assets		
Non-current assets	**10,103**	57,151
Current assets	**35,421**	32,406
	45,524	89,557
Liabilities		
Long term liabilities	**(8,939)**	(23,400)
Current liabilities	**(17,693)**	(25,937)
	(26,632)	(49,337)
Net assets	**18,892**	40,220

US$'000	**2012**	2011 (restated)
Revenue	**107,521**	84,046
Expenses	**(102,013)**	(83,821)
Share of results	**5,508**	225

There are no contingent liabilities relating to the Group's interests in jointly controlled entities, and there are no contingent liabilities or commitments of the jointly controlled entities themselves.

The Nanjing cargo terminal was disposed of in 2012.

Notes to the Financial Statements continued

11 INTERESTS IN JOINT VENTURES (continued)

(a) Jointly controlled entities (continued)

Accounting policy – Jointly controlled entities

A jointly controlled entity is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interests in jointly controlled entities are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's interests in jointly controlled entities include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its jointly controlled entities' post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition reserves is recognised in other comprehensive income based on the relevant profit sharing ratios.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that results from the purchase of assets by the Group from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. The financial information of jointly controlled entities has been adjusted where necessary to ensure consistency with the policies adopted by the Group.

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

Details of the principal jointly controlled entities of the Group held indirectly by the Company at 31 December 2012 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
PB Towage:				
Offshore Marine Services Alliance Pty Ltd ("OMSA")	Australia	300 shares of AUD1 each	$33^1/_3$%	Towage logistic services
Seafuels Limited	New Zealand	100 shares of NZD1 each	50%	Bunker tanker owning and chartering

(b) Jointly controlled operation

In 2012, the Group had a contractual arrangement with a third party to share equally the operating result associated with the chartering of a vessel (jointly controlled operation). The amounts of income and expenses recognised in respect of the Group's interest in the jointly controlled operation are as follow:

	Group	
US$'000	**2012**	2011
Charter-hire income included in revenue	**4,604**	2,933
Charter-hire expenses included in direct costs	**(3,386)**	(2,155)
	1,218	778

Accounting policy – Jointly controlled operation

A jointly controlled 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 jointly controlled operation are recognised in the consolidated balance sheet on an accrual basis and classified according to the nature of the item. The expenses that the Group incurs and its share of income that it earns from the jointly controlled operations are included in the consolidated income statement.

12 INVESTMENTS IN ASSOCIATES

US$'000	Group 2012	2011
Share of net assets	1,332	2,955
Equity loan to an associate (Note)	–	1,456
	1,332	4,411

Note: The equity loan to an associate, Muchalat Industries Limited, was unsecured, non-interest bearing, and had no fixed repayment terms.

An analysis of the Group's effective share of assets, liabilities, revenue and expenses of the associates is set out below:

US$'000	Group 2012	2011
Assets		
Non-current assets	4,478	4,455
Current assets	351	3,170
	4,829	7,625
Liabilities		
Long term liabilities	(1,933)	(1,975)
Current liabilities	(1,564)	(2,695)
	(3,497)	(4,670)
Net assets	1,332	2,955

US$'000	2012	2011 (restated)
Revenue	725	728
Expenses	(3,492)	(3,196)
Share of results	(2,767)	(2,468)

Accounting policy – Associates

An associate is an entity over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income based on the relevant profit sharing ratios. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of the associates has been changed where necessary to ensure consistency with the policies adopted by the Group.

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

Details of the principal associate of the Group held indirectly by the Company at 31 December 2012 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
PB Towage:				
Muchalat Industries Limited	BC, Canada	120 Class A common shares of CAD1 each	44.2%	Gold River Marine Terminal operation

Notes to the Financial Statements continued

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group					
	2012			2011		
US$'000	**Level 1**	**Level 3**	**Total**	Level 1	Level 3	Total
Listed equity securities (Note a)	**4,200**	**–**	**4,200**	9,786	–	9,786
Unlisted equity securities (Note b)	**–**	**529**	**529**	–	1,747	1,747
	4,200	**529**	**4,729**	9,786	1,747	11,533

Available-for-sale financial assets are denominated in United States Dollars.

(a) This represents the Group's investment in Greka Drilling Limited, a company listed on the London AIM market.

(b) This represents the Group's investment in an unlisted renewable energy equity fund.

Available-for-sale financial assets have been analysed by valuation method as above and the levels are defined as follows:

Fair value levels

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Changes in Level 3 financial instruments, unlisted equity securities, for the year ended 31 December 2012 are as follows:

US$'000	**2012**	2011
At 1 January	**1,747**	2,300
Additions	**1,576**	2,378
Return of capital	**(1,394)**	(1,954)
Impairment charge	**(1,400)**	(977)
At 31 December	**529**	1,747

Accounting policy – Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories under financial assets. They are included in non-current assets unless management intends to dispose of them within twelve months from the balance sheet date.

Assets in this category are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are released to the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other substantially similar instruments, and discounted cash flow analysis.

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

14 DERIVATIVE ASSETS AND LIABILITIES

Derivative assets and liabilities have been analysed by valuation method. Please refer to Note 13 Fair value levels for the definitions of different levels.

	Group					
	2012			2011		
US$'000	**Level 1**	**Level 2**	**Total**	Level 1	Level 2	Total
Derivative assets						
Cash flow hedges						
Forward foreign exchange contracts (Note a(i))	**–**	**4,447**	**4,447**	–	–	–
Derivative assets that do not qualify for hedge accounting						
Forward foreign exchange contracts (Note a(ii))	**–**	**6**	**6**	–	–	–
Bunker swap contracts (Note b)	**–**	**2,273**	**2,273**	–	5,262	5,262
Forward freight agreements (Note c)	**96**	**–**	**96**	402	–	402
Total	**96**	**6,726**	**6,822**	402	5,262	5,664
Less: non-current portion of						
Forward foreign exchange contracts (Note a(i))	**–**	**(4,447)**	**(4,447)**	–	–	–
Bunker swap contracts (Note b)	**–**	**(628)**	**(628)**	–	(361)	(361)
Non-current portion	**–**	**(5,075)**	**(5,075)**	–	(361)	(361)
Current portion	**96**	**1,651**	**1,747**	402	4,901	5,303
Derivative liabilities						
Cash flow hedges						
Forward foreign exchange contracts (Note a(i))	**–**	**5,014**	**5,014**	–	154	154
Interest rate swap contracts (Note d(i))	**–**	**10,190**	**10,190**	–	11,278	11,278
Derivative liabilities that do not qualify for hedge accounting						
Forward foreign exchange contracts (Note a(ii))	**–**	**488**	**488**	–	–	–
Bunker swap contracts (Note b)	**–**	**2,354**	**2,354**	–	1,374	1,374
Forward freight agreements (Note c)	**180**	**–**	**180**	700	–	700
Interest rate swap contracts (Note d(ii))	**–**	**6,907**	**6,907**	–	7,355	7,355
Total	**180**	**24,953**	**25,133**	700	20,161	20,861
Less: non-current portion of						
Forward foreign exchange contracts (Note a)	**–**	**(4,894)**	**(4,894)**	–	(154)	(154)
Interest rate swap contracts (Note d(i))	**–**	**(9,974)**	**(9,974)**	–	(11,278)	(11,278)
Bunker swap contracts (Note b)	**–**	**(909)**	**(909)**	–	(776)	(776)
Interest rate swap contracts (Note d(ii))	**–**	**(6,907)**	**(6,907)**	–	(7,355)	(7,355)
Non-current portion	**–**	**(22,684)**	**(22,684)**	–	(19,563)	(19,563)
Current portion	**180**	**2,269**	**2,449**	700	598	1,298

The Group is exposed to fluctuations in freight rates, bunker prices, interest rates and currency exchange rates. The Group manages these exposures by way of:

- forward freight agreements ("FFA");
- bunker swap contracts;
- interest rate swap contracts; and
- forward foreign exchange contracts.

Amongst the derivative assets and liabilities held by the Group, the fair values of forward foreign exchange contracts, interest rate swap contracts and bunker swap contracts are quoted by dealers at the balance sheet date. The forward freight agreements are traded through a clearing house and its fair value is determined using forward freight rates at the balance sheet date. The rest of the derivative assets and liabilities are over-the-counter derivatives which are not traded in an active market.

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

(a) Forward foreign exchange contracts

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

The Group has long term bank borrowings denominated in Danish Kroner ("DKK") with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into forward foreign exchange contracts with terms that match the repayment schedules of the long term bank borrowings. These forward foreign exchange contracts qualify for hedge accounting as cash flow hedges.

At 31 December 2012, the Group had outstanding forward foreign exchange contracts with banks to buy approximately DKK 1,442.7 million (2011: Nil) and simultaneously sell approximately US$260.8 million (2011: Nil), which expire through August 2023.

At 31 December 2011, the Group had outstanding forward foreign exchange contracts with banks to buy approximately DKK 615.8 million and simultaneously sell approximately EUR 82.7 million, which originally expired through February 2023. Such forward foreign exchange contracts were terminated in 2012.

At 31 December 2012, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$181.1 million (2011: Nil) and simultaneously sell approximately EUR 140.0 million (2011: Nil) for the sales proceeds of our six RoRo vessels that are denominated in Euros. These contracts expire through December 2015.

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

At 31 December 2012, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$79.6 million (2011: Nil) and simultaneously sell approximately EUR 60.7 million (2011: Nil) for our cash that are denominated in Euros. These contracts expire through July 2013.

- *Sensitivity analysis:*

With all other variables held constant, if the currencies of Non-Functional Currency Items had weakened/strengthened by 3% against United States Dollars, the Group's profit after tax and equity would have been decreased/increased by US$2.3 million (2011: US$2.7 million) mainly as a result of translation of cash and deposits denominated in Australian Dollars.

(b) Bunker swap contracts

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

At 31 December 2012, the Group had outstanding bunker swap contracts to buy approximately 201,150 (2011: 140,000) metric tonnes of bunkers. These contracts expire through December 2017 (2011: June 2016).

- *Sensitivity analysis:*

With all other variables held constant, if the average forward bunker rate on the bunker swap contracts held by the Group at the balance sheet date had been 10% higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$12.1 million (2011: US$8.3 million). Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which would offset such increase/decrease of the Group's profit after tax and equity.

(c) Forward freight agreements

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

At 31 December 2012, the Group had outstanding forward freight agreements as follows:

Contract Type	Index[1]	Quantity (days)	Contract Daily Price	Expiry thru
For 2012				
Buy	BSI	90	US$9,000	March 2013
Sell	BSI	135	US$6,950 to US$9,250	March 2013
For 2011				
Buy	BSI	360	US$11,925 to US$12,700	Dec 2012
Sell	BSI	360	US$12,000 to US$12,750	Dec 2012
Buy	BHI	270	US$9,000 to US$9,550	Dec 2012

(1) "BSI" represents "Baltic Supramax Index" and "BHI" represents "Baltic Handysize Index".

- *Sensitivity analysis:*

With all other variables held constant, if the average forward freight rate on FFA contracts held by the Group at the balance sheet date had been 20% higher/lower, the Group's profit after tax and equity would decrease/increase by approximately US$0.1 million (2011: increase/decrease by US$0.5 million). Future movements in charter rates will be reflected in the eventual operating revenue derived from the vessels, which would offset such decrease/increase of the Group's profit after tax and equity.

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

(d) Interest rate swap contracts

The Group has bank borrowings exposed to floating interest rates. In order to hedge against the fluctuations in interest rates related to the bank borrowings, the Group entered into interest rate swap contracts with banks to manage exposure to 3-month and 6-month floating rate LIBOR, and 3-month floating Bank Bill Swap Reference Rate ("BBSW").

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

Effective date	Notional amount	Swap details	Expiry
For 2012 & 2011			
2 January 2007	US$20 million	6-month floating rate LIBOR swapped to a fixed rate of approximately 5.6% per annum	Contract expires in January 2017
31 March 2009	US$100 million	3-month floating rate LIBOR swapped to fixed rates of approximately 2.9% to 3.0% per annum	Contracts expire through March 2016
30 June 2009	A$19 million	3-month floating rate BBSW swapped to a fixed rate of approximately 5.2% per annum	Contract expires in June 2013
For 2011			
4 May 2010	A$9 million	3-month floating rate BBSW swapped to a fixed rate of approximately 4.8% per annum	Contract expired in May 2012

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

Effective from 2 January 2007, a notional amount of US$40 million with the 6-month floating rate LIBOR swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month floating rate LIBOR remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6-month fixing period when the prevailing 6-month floating rate LIBOR is above 6.0% and reverts back to the fixed rate should the 6-month floating rate LIBOR subsequently drop below 6.0%.

This contract expires in January 2017.

- *Sensitivity analysis:*

With all other variables held constant, if the average interest rate on net cash balance subject to floating interest rates, which includes cash and deposits net of unhedged bank loans, held by the Group at the balance sheet date had been 50 basis point higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$3.4 million (2011: US$2.6 million).

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

During the year ended 31 December 2012, the Group recognised net derivative expense of US$1.0 million, as follows:

US$ Million	Realised	Unrealised	2012	2011
Income				
Forward freight agreements	1.7	0.8	2.5	9.3
Bunker swap contracts	22.2	2.8	25.0	21.1
Interest rate swap contracts	–	0.4	0.4	–
	23.9	4.0	27.9	30.4
Expenses				
Forward freight agreements	(2.0)	(0.6)	(2.6)	(9.0)
Bunker swap contracts	(13.7)	(6.7)	(20.4)	(6.2)
Interest rate swap contracts	(5.4)	–	(5.4)	(6.9)
Forward foreign exchange contracts	–	(0.5)	(0.5)	–
	(21.1)	(7.8)	(28.9)	(22.1)
Net				
Forward freight agreements	(0.3)	0.2	(0.1)	0.3
Bunker swap contracts	8.5	(3.9)	4.6	14.9
Interest rate swap contracts	(5.4)	0.4	(5.0)	(6.9)
Forward foreign exchange contracts	–	(0.5)	(0.5)	–
	2.8	(3.8)	(1.0)	8.3

Presentation in the Segment Information:

Revenue
Bunkers & port disbursements
Direct costs
Other income/Other expenses
Finance costs
General and administration
Profit for the year

Presentation in the Financial Statements:

Revenue
Bunkers & port disbursements
Direct costs
Other income/Other expenses
Finance costs
General and administration
Profit for the year

2.8:

- *Cash settlement of contracts completed in the year*
- *Included in segment results*

(3.8):

- *Contracts to be settled in future years*
- *Accounting reversal of earlier year contracts now completed*
- *Not part of segment results*

The application of HKAS 39 “Financial Instruments: Recognition and Measurement” has the effect of shifting to this year the estimated results of these derivative contracts that expire in future periods. In 2012 this created a net unrealised non-cash expense of US$3.8 million (2011: US$1.6 million). The cash flows of these contracts will occur in future reporting years.

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

Accounting policy –

Financial assets at fair value through profit or loss

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

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

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

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

Derivative financial instruments and hedging activities

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

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

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

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income and expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recycled when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(ii) Derivatives not qualifying for hedge accounting

Derivative instruments that do not qualify for hedge accounting are accounted for as financial assets and liabilities at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

Bunker swap contracts and forward freight agreements do not qualify for hedge accounting mainly because the contract periods, which are in calendar months, do not coincide with the periods of the physical contracts. The terms of one of the interest rate swap contracts and three forward foreign exchange contracts also did not qualify for hedge accounting.

Notes to the Financial Statements continued

15 TRADE AND OTHER RECEIVABLES

	Group	
US$'000	2012	2011
Non-current receivables		
Finance lease receivables – gross	–	5,392
Less: unearned finance lease income	–	(217)
Finance lease receivables – net (Note a)	–	5,175
Other receivables from disposal of RoRo (Note b)	58,039	–
Total	58,039	5,175
Current receivables		
Finance lease receivables – gross	5,392	2,315
Less: unearned finance lease income	(217)	(697)
Finance lease receivables – net (Note a)	5,175	1,618
Trade receivables – gross	40,765	45,628
Less: provision for impairment	(1,331)	(615)
Trade receivables – net (Note c)	39,434	45,013
Other receivables	37,687	34,302
Prepayments	21,103	17,837
Other receivables from disposal of RoRo (Note b)	1,699	–
Amounts due from jointly controlled entities (unsecured, non-interest bearing, repayable on demand)	946	2,340
Total	106,044	101,110

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

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

Accounting policy – Loan receivables, trade and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Trade and other receivables in the balance sheet are classified as loans and receivables.

Loans and receivables are recognised initially at fair value, plus transaction costs incurred. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Trade receivables mainly represent freight and charter-hire receivables which are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment.

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

(a) Finance leases receivables

At 31 December 2012, one of the Group's vessels was leased out under a finance lease. Under the terms of the lease, the charterer has the obligation to purchase the vessel at the end of the lease period.

The gross receivables, unearned finance lease income and the net receivables as at 31 December 2012 are as follows:

	Group	
US$'000	2012	2011
Gross receivables from finance lease		
Within one year	5,392	2,315
In the second year	–	5,392
	5,392	7,707
Less: unearned future finance lease income	(217)	(914)
	5,175	6,793
Net receivables from finance lease		
Within one year	5,175	1,618
In the second year	–	5,175
	5,175	6,793
Effective interest rate on finance lease receivables	11.3%	11.3%

Accounting policy – Finance leases: where the Group is the lessor

Finance leases occur where the lessee has substantially all the risks and rewards of ownership of an asset.

When assets are leased out under finance leases, the present value of the lease payments is recognised as receivables. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance lease interest income. Lease interest income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

Critical accounting estimates and judgements – Classification of leases

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

Management assesses the classification of leases by taking into account the market conditions at the inception of the lease, the period of the lease and the probability of exercising purchase options, if any, attached to the lease. For those leases that would transfer ownership of the assets to the Group at the end of the lease term, or the purchase options, if any, attached to the arrangements are sufficiently attractive as to make it reasonably certain that they would be exercised, they are being treated as finance leases.

15 TRADE AND OTHER RECEIVABLES (continued)

(b) Other receivables from disposal of RoRo

The balance related to the disposal of RoRo vessels in 2012 and represents the net purchase consideration for the two RoRo vessels that have commenced their bareboat charters to the purchaser. The non-current element of the other receivables will have been repaid by December 2015. The fair value of the other receivables is based on discounted cash flows based on a borrowing rate of 6%. The discount rate represents the Euro borrowing rate at inception including the appropriate credit spread.

(c) Trade receivables

At 31 December 2012, the ageing of net trade receivables is as follows:

	Group	
US$'000	**2012**	2011
Less than 30 days	**27,468**	31,371
31-60 days	**5,257**	8,212
61-90 days	**1,547**	2,069
Over 90 days	**5,162**	3,361
	39,434	45,013

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

	Group	
US$'000	**2012**	2011
At 1 January	**615**	3,003
Provision for receivable impairment	**1,925**	1,135
Receivable written off during the year as uncollectible	**(1,085)**	(1,768)
Unused amounts reversed	**(124)**	(1,755)
At 31 December	**1,331**	615

Credit policy

Trade receivables consist principally of voyage-related trade receivables. It is industry practice that 95% to 100% of freight is paid upon completion of loading, with any balance paid after completion of discharge and the finalisation of port disbursements, demurrage claims or other voyage-related charges. The Group will not normally grant any credit terms to its customers.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of international customers.

As at 31 December 2012 and 2011, net trade receivables are all past due but not impaired as no customer is expected to have significant financial difficulty. All other items within trade and other receivables do not contain past due or impaired assets.

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Credit & counterparty risk

16 CASH AND DEPOSITS

	Group	
US$'000	**2012**	2011
Cash at bank and on hand	**166,296**	114,458
Short term bank deposits	**587,162**	503,763
Total cash and deposits	**753,458**	618,221
Effective interest rate on deposits at year end	**1.87%**	1.96%
Average remaining maturity of bank deposits	**72 days**	95 days
Cash and cash equivalents	**390,502**	378,501
Term deposits	**242,616**	220,000
Cash and deposits	**633,118**	598,501
Restricted bank deposits included in non-current assets (Note)	**50,192**	8,566
Restricted bank deposits included in current assets (Note)	**70,148**	11,154
Total cash and deposits	**753,458**	618,221

Note: The balances were held as securities with banks in relation to certain performance guarantees and as collateral for certain bank loans.

As at 31 December 2012, the Company had cash at bank of US$17,000 (2011: US$13,000).

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

Accounting policy – Cash and cash equivalents

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

Notes to the Financial Statements continued

17 OTHER NON-CURRENT ASSETS

US$'000	Group 2012	2011
Prepayments for acquisition of vessels	5,322	4,400

Other non-current assets are denominated in United States Dollars. Please refer to Note 5 for the accounting policy on impairment.

18 INVENTORIES

US$'000	Group 2012	2011
Bunkers	74,602	62,308
Lubricating oil	4,500	4,565
	79,102	66,873

Accounting policy

Inventories are stated at the lower of cost and net realisable value, as estimated by the management. Costs are calculated on a first-in first-out basis.

19 STRUCTURED NOTES

Structured notes are investments under the Group Treasury Policy that are classified as financial assets at fair value through profit or loss and please refer to Note 14 for the accounting policy.

Fair value as at 31 December 2012 is measured according to the Level 3 of the fair value hierarchy defined in HKFRS 7: Financial Instruments: Disclosures. Please refer to Note 13 Fair value levels for the definitions of different levels.

Movements for the year ended 31 December 2012 are as follows:

US$'000	Group 2012	2011
At 1 January	12,913	–
Additions	–	43,301
Disposals	(13,219)	(30,356)
Fair value changes	32	(32)
Exchange difference	274	–
At 31 December	–	12,913

20 TRADE AND OTHER PAYABLES

US$'000	Group 2012	2011
Trade payables	67,197	51,600
Accruals and other payables	62,914	61,309
Receipts in advance	40,970	28,085
Amounts due to jointly controlled entities (unsecured, non-interest bearing and repayable on demand)	3,803	3,804
	174,884	144,798

At 31 December 2012, the ageing of trade payables was as follows:

US$'000	Group 2012	2011
Less than 30 days	61,970	45,314
31-60 days	213	201
61-90 days	829	75
Over 90 days	4,185	6,010
	67,197	51,600

The carrying values of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

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

Accounting policy – Trade payables

Trade payables mainly represent freight and charter-hire payables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

21 ASSETS AND LIABILITIES OF DISCONTINUED OPERATIONS CLASSIFIED AS HELD FOR SALE

In September 2012, the Group entered into an agreement to sell six RoRo vessels. The assets and liabilities related to the RoRo business have been presented as "held for sale". The disposal transaction will be completed when the remaining four RoRo vessels commence their bareboat charters which for three vessels occurred in February 2013 and for the remaining vessel is expected in March 2014.

(a) Assets and liabilities of discontinued operations

US$'000	2012
Assets held for sale (note)	128,078
Inventory	240
Other current assets	3,091
Assets of discontinued operations classified as held for sale	131,409
Trade and other payable	(4,219)
Other current liabilities	(38)
Liabilities of discontinued operations classified as held for sale	(4,257)
Net assets	127,152

Note: Relates to four RoRo vessels which had not commenced their bareboat charters at 31 December 2012.

(b) Analysis of the result of the discontinued operations

US$'000	2012	2011
Operating results Revenue	23,215	29,746
Direct costs (Note)	(30,798)	(30,537)
Gross profit	(7,583)	(791)
Finance costs, net	(4,162)	(2,547)
Share of profit less losses of jointly controlled entities and associates	(324)	(7,241)
Tax	(43)	(19)
	(12,112)	(10,598)
RoRo vessel impairment	(190,398)	(80,000)
RoRo exchange loss	(8,183)	–
	(210,693)	(90,598)

Note: Includes depreciation charges for RoRo vessels of US$7,900,000 (2011: US$11,000,000).

(c) Cumulative expense recognised in other comprehensive income relating to discontinued operations

US$'000	2012
Release of exchange reserve	(8,183)

(d) The net cash flows attributable to the discontinued operations

US$'000	2012	2011
Operating cash flows	3,055	9,759
Investing cash flows	(19,366)	(36,304)
Financing cash flows	(9,132)	(7,878)
	(25,443)	(34,423)

Accounting policy – Assets and liabilities of discontinued operations classified as held for sale

Assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group's business which represents a separate operations, or its part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The operations and cash flows of a discontinued operation should be clearly distinguished from the rest of the Group.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets constituting the discontinued operation.

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Discontinued operations – PB RoRo

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22 LONG TERM BORROWINGS

US$'000	Group 2012	2011
Non-current		
Finance lease liabilities (Note a)	133,146	151,432
Secured bank loans (Note b)	405,516	357,297
Convertible bonds (Note c)	314,989	204,987
	853,651	713,716
Current		
Finance lease liabilities (Note a)	18,287	17,050
Secured bank loans (Note b)	59,533	48,273
	77,820	65,323
Total long term borrowings	931,471	779,039

The fair value of long term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Long term borrowings are mainly denominated in United States Dollars.

Accounting policy – Borrowings

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

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

(a) Finance lease liabilities

At 31 December 2012, the Group leased certain vessels under finance leases. Under the terms of the leases, the Group has options to purchase these vessels at any time throughout the charter periods. Lease liabilities are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2012 are as follows:

US$'000	Group 2012	2011
Gross liabilities under finance leases		
Within one year	28,080	28,096
In the second year	28,085	28,086
In the third to fifth year	124,586	113,617
After the fifth year	–	39,036
	180,751	208,835
Less: future finance charges on finance leases	(29,318)	(40,353)
	151,433	168,482
Average effective interest rates on finance lease liabilities	6.8%	6.8%

US$'000	Group 2012	2011
Net liabilities under finance leases		
Within one year	18,287	17,050
In the second year	19,588	18,286
In the third to fifth year	113,558	96,057
After the fifth year	–	37,089
	151,433	168,482
Fair value of the finance lease liabilities	157,093	172,952

Accounting policy – Finance lease: where the Group is the lessee

Leases of assets where the lessee has substantially all the risks and rewards of ownership of such assets are classified as finance leases.

Where the Group is the lessee, finance leased assets are capitalised at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The finance lease liabilities are included in current and non-current borrowings. The finance charges are expensed in the income statement over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

22 LONG TERM BORROWINGS (continued)

(b) Secured bank loans

The bank loans as at 31 December 2012 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels with net book values of US$695,556,000 (2011: US$548,532,000) (Note 6);

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

(iii) Fixed and floating charges over all of the assets of certain subsidiaries of the Group's towage business; and

(iv) Cash and deposits totaling US$60,000,000 (2011: Nil).

The maturities of the Group's bank loans are as follows:

	Group	
US$'000	**2012**	2011
Within one year	**59,533**	48,273
In the second year	**60,384**	49,065
In the third to fifth year	**229,162**	230,330
After the fifth year	**115,970**	77,902
	465,049	405,570
Average effective interest rate of bank loans (before hedging)	**3.0%**	2.6%

(c) Convertible bonds

	Group			
	2012		2011	
US$'000	**Face value**	**Liability component**	Face value	Liability component
1.75% coupon due 2016	**230,000**	**210,584**	230,000	204,987
1.875% coupon due 2018	**123,800**	**104,405**	–	–
Total	**353,800**	**314,989**	230,000	204,987

(i) Convertible bonds – 1.75% coupon convertible bonds due 2016

Issue size	US$230 million
Issue date	12 April 2011
Maturity date	12 April 2016 (6 years from issue)
Coupon – cash cost	1.75% p.a. payable semi-annually in arrears on 12 April and 12 October
Effective interest rate	4.70% charged to income statement
Redemption Price	100%
Conversion Price into shares	HK$7.26 (with effect from 24 April 2012) (Note)
Conversion at bondholders' options	(i) until 11 January 2014, conversion can only take place if the closing price of the Company's shares is at least at a 20% premium to the conversion price then in effect for five consecutive trading days. (ii) After 11 January 2014 conversion can take place at any time at no premium.
Bondholder put date and price	On 12 April 2014 (4 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds at 100% of the principal amount.
Issuer call date and price	On or after 12 April 2014, the Group may redeem the bonds in whole at a redemption price equal to 100% of their principal amount if the closing price of the Company's shares is at least at a 30% premium to the conversion price then in effect for thirty consecutive trading days.

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

Notes to the Financial Statements continued

22 LONG TERM BORROWINGS (continued)

(c) Convertible bonds (continued)

(ii) Convertible bonds – 1.875% coupon convertible bonds due 2018

Issue size	US$123.8 million
Issue date	22 October 2012
Maturity date	22 October 2018 (6 years from issue)
Coupon – cash cost	1.875% p.a. payable semi-annually in arrears on 22 April and 22 October
Effective interest rate	5.17% charged to income statement
Redemption Price	100%
Conversion Price into shares	HK$4.96 (Note)
Conversion at bondholders' options	Bondholders may exercise the conversion right at anytime on or after 2 December 2012.
Bondholder put date and price	On 22 October 2016 (4 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds at 100% of the principal amount.
Issuer call date and price	On or after 22 October 2016, the Group may redeem the bonds in whole at a redemption price equal to 100% of their principal amount if the closing price of the Company's shares is at least at a 30% premium to the conversion price then in effect for thirty consecutive trading days.

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

Accounting policy – Convertible bonds

Convertible bonds are accounted for as the aggregate of (i) a liability component and (ii) an equity component.

At initial recognition, the fair value of the liability component of the convertible bonds is determined using a market interest rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the conversion option as an equity component, recognised in other comprehensive income.

Transaction costs associated with issuing the convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds. The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

23 SHARE CAPITAL

	2012		2011	
	Number of shares of US$0.1 each	**US$'000**	Number of shares of US$0.1 each	US$'000
Authorised	**3,600,000,000**	**360,000**	3,600,000,000	360,000
Issued and fully paid **At 1 January**	**1,936,576,305**	**193,658**	1,931,641,305	193,164
Shares purchased by trustee of the LTIS (Note a)	**(13,955,186)**	**(7,369)**	(2,561,000)	(1,477)
Shares transferred to employees upon granting of restricted share awards (Note a)	**16,129,000**	**7,586**	3,167,000	1,538
Shares issued and transferred to employees upon granting of restricted share awards (Note a)	**–**	**–**	4,699,000	470
Shares transferred back to trustee upon lapse of restricted share awards (Note a)	**(2,701,000)**	**(270)**	(370,000)	(37)
At 31 December	**1,936,049,119**	**193,605**	1,936,576,305	193,658

23 SHARE CAPITAL (continued)

(a) Restricted share awards

Restricted share awards under the Company's Long Term Incentive Scheme ("LTIS") were granted to Directors, senior management and certain employees. The LTIS under HKFRS is regarded as a special purpose entity of the Company. During the year, 13,753,000, 257,000 and 2,119,000 (2011: 7,886,000) restricted share awards were granted and transferred to certain employees on 1 June 2012, 22 June 2012 and 28 September 2012 respectively. The market price of the restricted share awards on the grant date represented the fair value of those shares.

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

	2012		2011	
Sources of shares granted	**Number of granted shares awards**	**Related movement US$'000**	Number of granted shares awards	Related movement US$'000
Shares purchased by the trustee of the LTIS on the Stock Exchange	**13,955,186**	**7,369**	2,561,000	1,477
Shares transferred from the shares held by trustee	**2,173,814**	**217**	606,000	61
Shares issued at nominal value of US$0.1 each	**–**	**–**	4,699,000	470
	16,129,000	**7,586**	7,866,000	2,008

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

	Number of	Vesting periods		
Date of grant	**unvested share awards**	**14 July 2013**	**14 July 2014**	**14 July 2015**
14 May 2010	4,237,000	4,237,000	–	–
20 May 2011	5,322,000	199,000	5,123,000	–
4 November 2011	70,000	70,000	–	–
30 December 2011	68,000	68,000	–	–
1 June 2012	13,543,000	1,413,000	1,413,000	10,717,000
22 June 2012	257,000	–	257,000	–
28 September 2012	2,119,000	477,000	540,000	1,102,000
	25,616,000	6,464,000	7,333,000	11,819,000

Please refer to Report of the Directors section, subsection Share Capital (P.75) for the movements of the number of unvested restricted share awards during the year.

At 31 December 2012. there remained 528,000 (2011: 814) shares held by the trustee, amounting to US$52,800 (2011: US$100) as a debit to share capital.

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax) is included in equity.

(b) Share options

55,500,000 share options under the LTIS were granted to Directors, senior management and certain employees on 14 July 2004 at an exercise price of HK$2.5 per share. They were fully vested on 14 July 2007 and will expire on 14 July 2014. At 31 December 2012, all of the 400,000 (2011: 400,000) outstanding share options were exercisable and their average exercise price was HK$2.50. There was no movement in the number of share options outstanding during the period.

Notes to the Financial Statements continued

24 RESERVES

	Group									
	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2012	597,124	(56,606)	32,302	2,207	(11,432)	7,292	11,907	582,794	708,463	1,291,257
Release of exchange reserve upon disposal of:										
– PP&E	–	–	–	–	–	–	8,183	8,183	–	8,183
– a jointly controlled entity	–	–	–	–	–	–	(3,131)	(3,131)	–	(3,131)
Fair value losses on available-for-sale financial assets	–	–	–	–	–	(5,587)	–	(5,587)	–	(5,587)
Cash flow hedges										
– fair value losses	–	–	–	–	(3,231)	–	–	(3,231)	–	(3,231)
– transferred to finance costs in income statement	–	–	–	–	5,608	–	–	5,608	–	5,608
Currency translation differences	–	–	–	–	–	–	(402)	(402)	–	(402)
Loss attributable to shareholders	–	–	–	–	–	–	–	–	(158,472)	(158,472)
Share-based compensation (see Remuneration Report)	–	–	–	4,668	–	–	–	4,668	–	4,668
Equity component of convertible bonds issued	–	–	19,318	–	–	–	–	19,318	–	19,318
Shares fully vested	2,722	–	–	(2,666)	–	–	–	56	(56)	–
Shares transferred upon granting and lapse of restricted share awards (Note 23)	–	–	–	(7,316)	–	–	–	(7,316)	–	(7,316)
Dividends paid (Note 29)	–	–	–	–	–	–	–	–	(12,479)	(12,479)
At 31 December 2012	599,846	(56,606)	51,620	(3,107)	(9,055)	1,705	16,557	600,960	537,456	1,138,416
Representing:										
2012 proposed final dividend									12,482	
Others									524,974	
Retained profits at 31 December 2012									537,456	

24 RESERVES (continued)

	Group									
	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2011	594,727	(56,606)	41,409	2,362	(7,834)	44,000	12,860	630,918	720,809	1,351,727
Release of investment valuation reserve upon disposal of available-for-sale financial assets	–	–	–	–	–	(60,502)	–	(60,502)	–	(60,502)
Fair value gains on available-for-sale financial assets	–	–	–	–	–	22,884	–	22,884	–	22,884
Impairment of available-for-sale financial assets charged to income statement	–	–	–	–	–	910	–	910	–	910
Cash flow hedges										
– fair value losses	–	–	–	–	(7,196)	–	–	(7,196)	–	(7,196)
– transferred to finance costs in income statement	–	–	–	–	3,598	–	–	3,598	–	3,598
Currency translation differences	–	–	–	–	–	–	(953)	(953)	–	(953)
Profit attributable to shareholders	–	–	–	–	–	–	–	–	31,982	31,982
Share-based compensation (see Remuneration Report)	–	–	–	4,213	–	–	–	4,213	–	4,213
Derecognition of the equity component upon repurchase and cancellation of convertible bonds	–	–	(9,107)	–	–	–	–	(9,107)	9,107	–
Shares fully vested	2,397	–	–	(2,397)	–	–	–	–	–	–
Shares transferred upon granting and lapse of restricted share awards (Note 23)	–	–	–	(1,971)	–	–	–	(1,971)	–	(1,971)
Dividends paid (Note 29)	–	–	–	–	–	–	–	–	(53,435)	(53,435)
At 31 December 2011	597,124	(56,606)	32,302	2,207	(11,432)	7,292	11,907	582,794	708,463	1,291,257
Representing: 2011 final dividend									12,479	
Others									695,984	
Retained profits at 31 December 2011									708,463	

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

(b) Merger reserve of the Group represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the transfer of PB Vessels Holding Limited and its subsidiaries into the Company through an exchange of shares prior to the listing of the shares of the Company on the Stock Exchange in 2004.

Notes to the Financial Statements continued

24 RESERVES (continued)

US$'000	Company Other reserves Share Premium	Staff benefits reserve	Subtotal	Retained profits	Total
At 1 January 2012	597,124	2,207	599,331	695,977	1,295,308
Loss attributable to shareholders (Note 28)	–	–	–	(3,083)	(3,083)
Share-based compensation (see Remuneration Report)	–	4,668	4,668	–	4,668
Shares transferred upon granting and lapse of restricted share awards (Note 23)	–	(7,316)	(7,316)	–	(7,316)
Share fully vested	2,722	(2,666)	56	(56)	–
Dividends paid (Note 29)	–	–	–	(12,479)	(12,479)
At 31 December 2012	599,846	(3,107)	596,739	680,359	1,277,098
Representing: 2012 proposed final dividend				12,482	
Others				667,877	
Retained profits as at 31 December 2012				680,359	
At 1 January 2011	594,727	2,362	597,089	701,032	1,298,121
Profit attributable to shareholders (Note 28)	–	–	–	48,380	48,380
Share-based compensation (see Remuneration Report)	–	4,213	4,213	–	4,213
Shares transferred upon granting and lapse of restricted share awards (Note 23)	–	(1,971)	(1,971)	–	(1,971)
Share fully vested	2,397	(2,397)	–	–	–
Dividends paid (Note 29)	–	–	–	(53,435)	(53,435)
At 31 December 2011	597,124	2,207	599,331	695,977	1,295,308
Representing: 2011 final dividend				12,479	
Others				683,498	
Retained profits as at 31 December 2011				695,977	

25 OTHER INCOME AND GAINS

US$'000	2012	2011 (restated)
Gains Gains on forward freight agreements	2,485	9,326
Gains on disposal of subsidiaries	127	–
Gains on disposal of available-for-sale financial assets	–	55,816
Reversal of fair value loss of structured notes	32	–
Utilisation of provision for onerous contracts	–	2,031
	2,644	67,173

26 FINANCE INCOME AND COSTS

US$'000	2012	2011 (restated)
Finance income		
Bank interest income	16,045	11,981
Finance lease interest income	1,435	869
Total finance income	17,480	12,850
Finance costs		
Borrowings wholly repayable within five years		
Interest on bank loans	5,178	5,198
Interest on finance leases	11,034	6,882
Interest on convertible bonds	9,623	10,009
Borrowings not wholly repayable within five years		
Interest on bank loans	7,639	7,586
Interest on finance leases	–	5,247
Interest on convertible bonds	1,003	–
Other finance charges	142	1,062
Net losses on interest rate swap contracts	4,977	6,931
	39,596	42,915
Less: amounts capitalised (Note 6)	(3,642)	(1,280)
Total finance costs	35,954	41,635
Finance costs, net	18,474	28,785

27 TAXATION

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

The amount of taxation charged/(credited) to the consolidated income statement represents:

US$'000	2012	2011 (restated)
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2011: 16.5%)	476	469
Overseas tax, provided at the rates of taxation prevailing in the countries	1,389	1,296
Overprovision of prior year	(241)	(1,587)
	1,624	178

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	2012	2011 (restated)
Profit before taxation	53,845	122,758
Less: share of profits less losses of jointly controlled entities	(5,508)	(225)
Add: share of profits less losses of associates	2,767	2,468
	51,104	125,001
Tax calculated at applicable tax rates	4,846	21,302
Income not subject to taxation	(105,902)	(97,428)
Expenses not deductible for taxation purposes	104,614	75,103
Tax losses (utilised)/incurred for which no deferred income tax asset was recognised	(1,693)	2,787
Overprovision of prior year	(241)	(1,586)
Taxation charge	1,624	178
Weighted average applicable tax rate	9.5%	17.0%

The Group has not recognised deferred income tax assets of US$8,581,000 (2011: US$10,274,000) in respect of tax losses amounting to US$28,604,000 (2011: US$36,735,000). These tax losses have no expiry date.

Notes to the Financial Statements continued

27 TAXATION (continued)

Critical accounting estimates and judgements – Income taxes

The Group is subject to income taxes in certain jurisdictions. There are transactions entered into where the ultimate tax determination and tax classification may be uncertain. Significant judgement is required in determining the provision for income taxes. The current provision in the balance sheet for income tax of US$2,509,000 represents management's estimates of the most likely amount of tax expected to be paid to the taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income tax in the period in which such determination is made.

Accounting policy – Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, jointly controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Accounting policy – Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

28 LOSS/PROFIT ATTRIBUTABLE TO SHAREHOLDERS

US$3,083,000 of loss (2011: US$48,380,000 of profit) attributable to shareholders is dealt with in the financial statements of the Company.

29 DIVIDENDS

	2012			2011		
	HK cents per share	**US cents per share**	**US$'000**	HK cents per share	US cents per share	US$'000
Interim dividend	**–**	**–**	**–**	5.0	0.6	12,416
Proposed final dividend	**5.0**	**0.6**	**12,482**	5.0	0.6	12,479
	5.0	**0.6**	**12,482**	10.0	1.2	24,895
Dividend paid during the year	**5.0**	**0.6**	**12,479**	21.5	2.7	53,435

The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting on 19 April 2013.

Accounting policy

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Directors, where appropriate.

The dividend declared after the year end is not reflected as a dividend payable in the financial statements of that year, but will be reflected as an appropriation of retained profits for the following year.

30 EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's LTIS (Note 23(a)).

		2012	2011 (restated)
Profit from continuing operations	(US$'000)	**52,221**	122,580
Loss from discontinued operations	(US$'000)	**(210,693)**	(90,598)
(Loss)/profit attributable to shareholders	(US$'000)	**(158,472)**	31,982
Weighted average number of ordinary shares in issue	('000)	**1,932,750**	1,934,084
Basic earnings per share			
– continuing operations	(US cents)	**2.70**	6.33
– discontinued operations	(US cents)	**(10.90)**	(4.68)
	(US cents)	**(8.20)**	1.65
Equivalent to			
– continuing operations	(HK cents)	**20.96**	49.36
– discontinued operations	(HK cents)	**(84.57)**	(36.48)
	(HK cents)	**(63.61)**	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 after adjusting for the number of potential dilutive ordinary shares granted under the Company's LTIS but excluding the shares held by the trustee of the Company's LTIS (Note 23(a)).

		2012	2011 (restated)
Profit from continuing operations	(US$'000)	**52,221**	122,580
Interest expense on convertible bonds	(US$'000)	**1,003**	–
Profit used to determine diluted earnings per share	(US$'000)	**53,224**	122,580
Loss from discontinued operations	(US$'000)	**(210,693)**	(90,598)
(Loss)/profit attributable to shareholders	(US$'000)	**(157,469)**	31,982
Weighted average number of ordinary shares in issue	('000)	**1,932,750**	1,934,084
Adjustment for:			
– assumed conversion of convertible bonds	('000)	**37,538**	–
– share options	('000)	**137**	161
Weighted average number of ordinary shares for diluted earnings per share	('000)	**1,970,425**	1,934,245
Diluted earnings per share			
– continuing operations	(US cents)	**2.70**	6.33
– discontinued operations	(US cents)	**(10.69)**	(4.68)
	(US cents)	**(7.99)**	1.65
Equivalent to			
– continuing operations	(HK cents)	**20.96**	49.36
– discontinued operations	(HK cents)	**(82.96)**	(36.48)
	(HK cents)	**(62.00)**	12.88

Notes to the Financial Statements continued

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations

	Group	
US$'000	2012	2011
Profit before taxation	(156,805)	32,179
Adjusted for:		
Assets and liabilities adjustments:		
Provision for/(write-back of) impairment losses		
– Property, plant and equipment	190,398	80,000
– Trade receivables	1,801	(620)
– Available-for-sale financial assets	1,400	1,887
Depreciation	72,324	73,478
Amortisation of land use rights	115	113
Net unrealised losses on derivative instruments not qualified as hedges, excluding interest rate swap contracts	4,237	259
Gains on disposal of subsidiaries	(127)	–
Fair value changes on structured notes	(32)	32
Gains on disposal of available-for-sale financial assets	–	(55,816)
Utilisation of provision for onerous contracts	–	(2,031)
Capital and funding adjustments:		
Share-based compensation	4,668	4,213
Results adjustments:		
Finance costs, net	22,636	31,332
Share of profits less losses of associates	2,767	9,992
Share of profits less losses of jointly controlled entities	(5,185)	(508)
RoRo exchange loss	8,183	–
Exchange differences	592	2,526
Profit before taxation before working capital changes	146,972	177,036
Increase in inventories	(12,488)	(27,127)
Increase in trade and other payables	21,006	16,327
Increase in trade and other receivables	(5,437)	(5,781)
Cash generated from operations	150,053	160,455

32 COMMITMENTS

(a) Capital commitments

US$'000	Group 2012	2011
Contracted but not provided for – vessel acquisitions and shipbuilding contracts	**201,171**	322,428
– investment in unlisted equity securities	**–**	12,100
	201,171	334,528
Authorised but not contracted for – vessel acquisitions and shipbuilding contracts	**34,700**	–
	235,871	334,528

Capital commitments for the Group that fall due in one year or less amounted to US$215.0 million (2011: US$181.2 million).

As at 31 December 2012 and 2011, the Company had no capital commitments.

(b) Commitments under operating leases

Accounting policy – Operating leases

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

Critical accounting estimates and judgements – Classification of leases

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

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

(i) The Group as the lessee – payments

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

US$'000	Dry bulk vessels	Tugs	Vessels total	Land and buildings	Total
At 31 December 2012					
Within one year	**135,753**	**2,525**	**138,278**	**3,508**	**141,786**
In the second to fifth year	**295,360**	**475**	**295,835**	**3,339**	**299,174**
After the fifth year	**139,046**	**–**	**139,046**	**324**	**139,370**
	570,159	**3,000**	**573,159**	**7,171**	**580,330**
At 31 December 2011					
Within one year	188,666	973	189,639	3,615	193,254
In the second to fifth year	250,259	–	250,259	5,404	255,663
After the fifth year	133,507	–	133,507	822	134,329
	572,432	973	573,405	9,841	583,246

Notes to the Financial Statements continued

32 COMMITMENTS (continued)

(b) Commitments under operating leases (continued)

(i) The Group as the lessee – payments (continued)

Contingent lease payments made amounted to US$57,065,000 (2011: US$44,150,000). These relate to chartered-in dry bulk vessels on an index-linked basis.

The leases have varying terms ranging from less than 1 year to 11 years. Certain of these leases have escalation clauses, renewal rights and purchase options.

Accounting policy – Operating leases: where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease periods.

(ii) The Group as the lessor – receipts

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

US$'000	Dry bulk[(a)] vessels	RoRo	Tugs	Vessels total	Investment properties	Total
At 31 December 2012						
Within one year	**19,426**	**–**	**17,571**	**36,997**	**89**	**37,086**
In the second to fifth year	**63,619**	**–**	**1,852**	**65,471**	**–**	**65,471**
After the fifth year	**87,295**	**–**	**–**	**87,295**	**–**	**87,295**
	170,340	**–**	**19,423**	**189,763**	**89**	**189,852**
At 31 December 2011						
Within one year	24,626	10,226	7,266	42,118	117	42,235
In the second to fifth year	63,619	–	–	63,619	–	63,619
After the fifth year	103,189	–	–	103,189	–	103,189
	191,434	10,226	7,266	208,926	117	209,043

(a) Operating lease commitments of the Group as the lessor for dry bulk vessels mainly included the commitments from two Post-Panamax vessels of US$166.8 million (2011:US$182.7 million).

The Group's operating leases are for terms ranging from less than 1 year to 16 years.

Accounting policy – Operating leases: where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet and, where applicable, are depreciated in accordance with the Group's depreciation policies as set out in Note 6 Property, plant and equipment. Revenue arising from assets leased out under operating leases is recognised on a straight-line basis over the lease periods.

33 FINANCIAL LIABILITIES SUMMARY

This note should be read in conjunction with the liquidity risk in Governance – Risk Management Section on P.54.

Maturity profile of the Group's financial liabilities, net-settled derivative financial instruments and gross-settled derivative financial instruments, representing contractual cash flows which include principal and interest elements where applicable, based on the remaining period from the balance sheet date to the contractual maturity date.

	Within one year		**In the second year**		**In the third to fifth year**		**After the fifth year**		**Total**	
US$'000	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011	**2012**	2011
Long term borrowings										
– Gross liabilities under finance leases	**28,080**	28,096	**28,085**	28,086	**124,586**	113,617	**–**	39,036	**180,751**	208,835
– Secured bank loans	**74,098**	61,018	**73,682**	58,532	**253,845**	251,608	**130,949**	87,431	**532,574**	458,589
– Convertible bonds	**6,346**	4,025	**6,346**	4,025	**243,001**	240,063	**126,121**	–	**381,814**	248,113
Derivative financial instruments										
(i) Net-settled (Note a)										
– Interest rate swap contracts	**5,678**	4,456	**5,339**	5,594	**6,213**	8,971	**–**	10	**17,230**	19,031
– Bunker swap contracts	**1,446**	599	**492**	602	**417**	173	**–**	–	**2,355**	1,374
– Forward freight agreements	**180**	700	**–**	–	**–**	–	**–**	–	**180**	700
(ii) Gross-settled (Note b)										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	**127,392**	14,233	**93,213**	13,817	**177,234**	39,021	**123,949**	64,686	**521,788**	131,757
– inflow	**(127,126)**	(14,039)	**(94,127)**	(13,653)	**(180,121)**	(38,773)	**(131,459)**	(65,219)	**(532,833)**	(131,684)
Net outflow/(inflow)	**266**	194	**(914)**	164	**(2,887)**	248	**(7,510)**	(533)	**(11,045)**	73
Current liabilities										
Trade and other payables	**133,914**	116,713	**–**	–	**–**	–	**–**	–	**133,914**	116,713

(a) Net-settled derivative financial instruments represent derivative liabilities whose terms result in settlement by a netting mechanism, such as settling the difference between the contract price and the market price of the financial liabilities.

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

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions carried out in the normal course of the Group's business and on an arm's length basis were as follows:

(a) Purchases of services

US$'000	**2012**	2011
Management fee and commission paid to Meridian Shipping (Note i)	**1,404**	1,098
Management fee and commission paid to Meridian Marine Management (Note ii)	**1,670**	1,063

(i) The Group paid to Meridian Shipping, a jointly controlled entity, management fees and commissions in relation to commercial management services.

(ii) The Group paid to Meridian Marine Management, a jointly controlled entity, management fees and commissions in relation to technical management services.

Notes to the Financial Statements continued

34 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Sales of services

US$'000	2012	2011
Charter-hire income received from OMSA (Note i)	27,142	19,366
Management service fee received from OMSA (Note ii)	7,800	7,957
Charter-hire income received from NGB (Note iii)	–	8,452

(i) The Group leased out certain vessels to OMSA, a jointly controlled entity.

(ii) The Group performed technical and other management services to OMSA.

(iii) The Group leased out certain vessels to NGB, an associate.

(c) Key management compensation

For the key management compensation (including Directors' emoluments) and the accounting policy on employee benefits, please refer the Remuneration Report on P.70 to P.73.

35 FINANCIAL GUARANTEES

At 31 December 2012, the Company has given corporate guarantees with maximum exposures of US$440.7 million (2011: US$368.8 million) for certain subsidiaries of Pacific Basin Dry Bulk and PB Towage segments in respect of loan facilities granted to the subsidiaries.

Accounting policy

Financial guarantee contracts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary holder of the guarantee (i.e. the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

36 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company has no contingent liabilities and contingent assets at 31 December 2012 and 2011.

Accounting policy

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements when an outflow of economic resources is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

37 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2012,

(a) the Group has contracted with a third party to acquire one Handymax vessel for a consideration of approximately US$15.5 million; and

(b) the Board has authorised to contract with a third party to acquire one Handysize vessel for a consideration of approximately US$21.3 million.

Page 39
Total Group vessel commitments

38 PRINCIPAL SUBSIDIARIES

At 31 December 2012, the Company has direct and indirect interests in the following principal subsidiaries:

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2012 %	Interest held 2011 %	Principal activities
Shares held directly:					
Others:					
PB Vessels Holding Limited	BVI	701,118,775 shares of US$1 each	100	100	Investment holding
PB Management Holding Limited	BVI	12,313 shares of US$1 each	100	100	Investment holding
PB Issuer (No. 2) Limited	BVI	1 share of US$1	100	100	Convertible bond issuer
PB Issuer (No. 3) Limited	BVI	1 share of US$1	100	–	Convertible bond issuer
Shares held indirectly:					
Pacific Basin Dry Bulk:					
Astoria Bay Limited	HK	1 share of HK$1	100	100	Vessel owning
Barrow Shipping Limited (Formerly “Niagara River Limited”)	BVI	1 share of US$1	100	100	Vessel owning
Bernard (BVI) Limited	BVI/Int’l	5,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Bonny Shipping Limited (Formerly “Hondo River Limited”)	BVI	1 share of US$1	100	100	Vessel owning
Bright Cove Limited	HK/Int’l	1 share of HK$1	100	100	Vessel owning and chartering
Cape York Shipping Limited	BVI/Int’l	1 share of US$1	100	100	Vessel owning and chartering
Champion Bay Limited	BVI/Int’l	1 share of US$1	100	100	Vessel owning and chartering
Cherry Point Limited	HK	1 share of HK$1	100	–	Vessel owning
Chiloe Shipping Limited (Formerly “Pigeon River Limited”)	BVI	1 share of US$1	100	100	Vessel owning
Delphic Shipping (BVI) Limited	BVI/Int’l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	HK/Int’l	1 share of HK$1	100	100	Vessel owning and chartering
Eastern Cape Limited (Formerly “Olympic River Limited”)	BVI	1 share of US$1	100	100	Vessel owning
Elizabay Limited	BVI/Int’l	1 share of US$1	100	100	Vessel owning and chartering
Elizabeth Castle Limited	BVI	1 share of US$1	100	100	Vessel chartering
Esperance Bay Limited	HK/Int’l	1 share of HK$1	100	100	Vessel owning and chartering
Everclear Shipping (BVI) Limited	BVI/Int’l	3,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Foreview (HK) Limited	HK/Int’l	10 Class ‘A’shares of US$1 each, 2,500,000 Class ‘B’shares of US$1 each	100	100	Vessel owning and chartering
Francesca Shipping (BVI) Limited	BVI/Int’l	3,000,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Future Sea Limited	HK/Int’l	1 share of HK$1	100	100	Vessel owning and chartering
Gold River Vessel Limited	HK/Int’l	1 share of HK$1	100	–	Vessel owning and chartering
Good Shape Limited	HK/Int’l	1 share of HK$1	100	100	Vessel owning and chartering
Helen Shipping (BVI) Limited	BVI/Int’l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Imabari Logger Limited	BVI	1 share of US$1	100	–	Vessel owning
Jamaica Bay Limited (Formerly “Grain Mountain Limited”)	BVI	1 share of US$1	100	100	Vessel owning
James Bay Limited (Formerly “Coal Mountain Limited”)	BVI	1 share of US$1	100	100	Vessel owning
Jericho Beach Limited (Formerly “Phosphate Mountain Limited”)	BVI	1 share of US$1	100	100	Vessel owning
Jervis Bay Shipping Limited (Formerly “Petcoke Mountain Limited”)	BVI	1 share of US$1	100	100	Vessel owning

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES (continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held		Principal activities
			2012 %	2011 %	
Jiangmen Trader Limited (Formerly "Alumina Mountain Limited")	BVI	1 share of US$1	100	100	Vessel owning
Judith Shipping (BVI) Limited	BVI/Int'l	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Jules Point Limited (Formerly "Wheat Mountain Limited")	BVI	1 share of US$1	100	100	Vessel owning
Kaiti Hill Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Labrador Shipping (BVI) Limited	BVI/Int'l	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Lake Stevens Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Liberty Vessel Limited (Formerly "Olympic Harbour Limited")	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Luzon Strait Shipping (BVI) Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Matakana Island Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Mega Fame Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Mount Adams Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Mount Rainier Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Newman Shipping (BVI) Limited	BVI/Int'l	2,600,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Nobal Sky Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Oak Bay Shipping Limited	HK	1 share of HK$1	100	–	Vessel owning
Othello Shipping (BVI) Limited	BVI/Int'l	2,659,300 shares of US$0.01 each	100	100	Vessel owning and chartering
Pacific Basin Chartering Limited	BVI/Int'l	10 shares of US$1 each	100	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 2) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 3) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 4) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 5) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 6) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 7) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 8) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 9) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 10) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 11) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Port Alfred Limited	HK	1 share of HK$1	100	–	Vessel owning
Port Alice Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Port Angeles Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Port Botany Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Supreme Effort Group Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Tampa Bay Limited	HK	1 share of HK$1	100	–	Vessel owning
Uhland Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Verner Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
West Bay Shipping Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Zhoushan Shipping Limited (Formerly "Amur River Limited")	BVI	1 share of US$1	100	100	Vessel owning
PB Towage:					
AMS Salvage and Towage Pty. Ltd.	Aus/Int'l	100 shares of AUD1 each	100	100	Tugs owning and chartering
PB Diamantina Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Maritime Services (Australia) Pty. Ltd.	Aus	1 shares without par value	100	100	Ship management services
PB Offshore (No.2) Limited	Cook/Int'l	10 shares of US$1 each	100	100	Tug owning and chartering

38 PRINCIPAL SUBSIDIARIES (continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held		Principal activities
			2012 %	2011 %	
PB Pearl Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug & barge owning and chartering
PB Pride Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug & barge owning and chartering
PB Progress Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Sea-Tow Asia Pte. Ltd.	Singapore	1 share of US$1	**100**	100	Tugs chartering
PB Sea-Tow (Australia) Pty Ltd	Aus	1 share of AUD1	**100**	100	Ship management services
PB Sea-Tow (Awanuia) Limited	New Zealand	100 shares without par value	**100**	100	Crew management services
PB Sea-Tow (BVI) Limited	BVI/Int'l	1 share of US$1	**100**	100	Ship management services
PB Sea-Tow Crewing (NZ) Limited	New Zealand	1 share without par value	**100**	–	Crew management services
PB Sea-Tow Niugini Pte. Ltd.	Singapore	1 share of S$1	**100**	100	Tugs chartering and operation
PB Sea-Tow (NZ) Limited	New Zealand	1 share without par value	**100**	100	Ship management services
PB Sea-Tow Operations (NZ) Limited	New Zealand	1 share without par value	**100**	–	Ship management services
PB Sea-Tow Projects (Australia) Pty Ltd	Aus	1 share without par value	**100**	–	Ship management services
PB Towage (No.1) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage (No.2) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage (No.3) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Barges owning and chartering
PB Towage (No.4) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage (No.5) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tugs owning and chartering
PB Towage Asset (No.1) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage Asset (No.2) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage Assets #3 Pty Ltd	Aus/Int'l	1 share of AUD1	**100**	100	Tugs owning and chartering
PB Towage Assets #4 Pty Ltd	Aus/Int'l	1 share of AUD1	**100**	100	Tugs owning and chartering
PB Towage Australia (Onslow) Pty Ltd	Aus/Int'l	1 share of AUD1	**100**	100	Tugs owning and chartering
PB Towage (Australia) Holdings Pty Ltd	Aus/Int'l	57,589,338 shares of AUD1 each	**100**	100	Tugs owning and chartering
PB Towage (Australia) Pty Ltd	Aus	1,390,100 shares of AUD2.34 each	**100**	100	Ship management services
PB Towage Middle East Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Ship management services
PB RoRo:					
Dover Sole Limited	BVI/Int'l	1 share of US$1	**100**	100	Vessel owning and chartering
Gibraltar Strait Limited	BVI/Int'l	1 share of US$1	**100**	100	Vessel owning and chartering
Illuminous Limited	BVI/Int'l	1 share of US$1	**100**	100	Vessel owning and chartering
Kumberstar Limited	BVI/Int'l	1 share of US$1	**100**	100	Vessel owning and chartering
Prospect Number 59 Limited	E&W	1 share of GBP1	**100**	100	Vessel owning and chartering
Prospect Number 60 Limited	E&W	1 share of GBP1	**100**	100	Vessel owning and chartering
Others:					
Asia Pacific Capital Developments Limited 亞太資本發展有限公司	HK	1 share of HK$1	**100**	100	Property holding
Great Prosperity Business Management Consulting (Wuhan) Limited [1 & 2] 漢隆企業管理諮詢（武漢）有限公司	PRC	US$2,900,000 (registered capital)	**100**	100	Property holding
Pacific Basin Agencies Limited 太平洋航運代理有限公司	HK/Int'l	1 share of HK$1	**100**	100	Holding company of Japan branch
Pacific Basin Handymax Limited	HK	1 share of HK$1	**100**	100	Ship management services
Pacific Basin Handymax (UK) Limited	E&W	1 share of GBP1	**100**	100	Ship management services
Pacific Basin Handysize Limited	BVI/HK	10 shares of US$1 each	**100**	100	Ship management services
Pacific Basin Handysize (HK) Limited	HK	1 share of HK$1	**100**	100	Ship management services
Pacific Basin Handysize (UK) Limited	E&W	2 shares of GBP1 each	**100**	100	Ship management services

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES (continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held		Principal activities
			2012 %	2011 %	
Pacific Basin Shipping (Australia) Pty Ltd [1]	AUS	1 share of AUD1	**100**	100	Shipping consulting services
Pacific Basin Shipping (Canada) Limited	BC, Canada	1 common share without par value	**100**	100	Shipping consulting services
Pacific Basin Shipping (Chile) Limitada	Chile, Santiago	Chilean pesos equivalent to US$6,000 (registered capital)	**100**	100	Shipping consulting services
Pacific Basin Shipping, Denmark ApS	Denmark	800 shares of DKK100 each	**100**	100	Shipping consulting services
Pacific Basin Shipping (Germany) GmbH	Germany	1 share of EUR25,000	**100**	100	Shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運（香港）有限公司	HK	2 shares of HK$10 each	**100**	100	Ship agency services
Pacific Basin Shipping Middle East DMCC [1]	Dubai Multi Commodities Centre (DMCC)	500 shares of AED1,000 each	**100**	100	Shipping consulting services
Pacific Basin Shipping (New Zealand) Limited [1]	New Zealand	100 shares without par value	**100**	100	Shipping consulting services
Pacific Basin Shipping (South Africa) Pty Ltd	Republic of South Africa	120 shares without par value	**100**	100	Shipping consulting services
Pacific Basin Shipping (UK) Limited	E&W	2 shares of GBP1 each	**100**	100	Shipping consulting services
Pacific Basin Shipping (USA) Inc.	USA	100 shares of US$10 each	**100**	100	Ship management services
PB Commerce Limited	BVI/HK	1 share of US$1	**100**	100	Investment holding
PB Maritime Personnel Inc.[1]	The Philippines	1,730,000 shares of PHP10 each	**100**	100	Crewing services
PBS Corporate Secretarial Limited	HK	1 share of HK$1	**100**	100	Secretarial services
Taihua Shipping (Beijing) Limited [1 & 2] 太華船務（北京）有限公司	PRC	US$4,000,000 (registered capital)	**100**	100	Ship agency and management services

(1) The financial statements of these subsidiaries have not been audited by PricewaterhouseCoopers. The aggregate net assets and net results for the year attributable to the shareholders of the Group amounted to approximately US$12,574,000 (2011: US$12,977,000) and US$45,000 profit (2011: US$248,000 loss) respectively.

(2) These subsidiaries are wholly foreign-owned enterprises established in the PRC, with registered capital fully paid up by the Group.

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

Independent Auditor's Report

To the Shareholders of Pacific Basin Shipping Limited

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 86 to 138, which comprise the consolidated and company balance sheets as at 31 December 2012, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2012, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

Pricewaterhousecoopers

Certified Public Accountants

Hong Kong, 28 February 2013

Group Financial Summary

US$'000		**2012**	2011 (restated)	2010	2009	2008
Results						
Continuing operations						
Revenue		**1,443,086**	1,312,789	1,268,542	950,477	1,690,948
Gross profit		**81,867**	108,437	159,329	152,796	358,597
Profit before taxation		**53,845**	122,758	104,791	112,001	412,408
Taxation		**(1,624)**	(178)	(453)	(1,723)	(3,618)
Profit for the year		**52,221**	122,580	104,338	110,278	408,790
Discontinued operations[1]						
Loss for the year		**(210,693)**	(90,598)	–	–	–
Eligible profit attributable to shareholders		**(158,472)**	31,982	104,338	112,800	297,911
Attributable to:						
Shareholders		**(158,472)**	31,982	104,338	110,278	409,119
Non-controlling interests		**–**	–	–	–	(329)
		(158,472)	31,982	104,338	110,278	408,790
Balance Sheet						
Total assets		**2,470,275**	2,431,752	2,555,388	2,469,893	2,330,505
Total liabilities		**(1,138,254)**	(946,837)	(1,010,497)	(1,014,326)	(1,111,803)
Total equity		**1,332,021**	1,484,915	1,544,891	1,455,567	1,218,702
Net borrowings/(cash)		**178,013**	160,818	156,029	(229,084)	(175,929)
Total cash and deposits		**753,458**	618,221	703,437	1,105,662	1,023,741
Cash Flows						
From operating activities		**148,736**	159,361	198,577	145,337	459,083
From investment activities of which		**(224,983)**	(35,028)	(462,154)	(177,776)	(244,496)
gross investment in vessels		**(188,295)**	(167,592)	(540,612)	(279,543)	(316,757)
From financing activities		**110,181**	(166,322)	(96,532)	55,718	110,754
Change in cash and cash equivalent for the year		**33,934**	(41,989)	(360,109)	23,279	325,341
Other Data						
Basic EPS	US cents	**(8)**	2	5	6	24
Dividends per share[2]	US cents	**1**	1	3	3	10
Eligible profit payout ratio[3]		**>100%**	78%	51%	51%	57%
Cash flows from operating activities per share	US cents	**8**	8	10	8	27
Net book value per share	US cents	**69**	77	80	76	70
Dividends	US$'000	**12,482**	24,896	53,441	57,184	170,142

[1] The financial information for the year ended 31 December 2008 to 2010 were extracted from the Group Financial Summary in its Annual Reports of those years. No restrospective restatement for the discontinued operations of 2012 was made to such information.

[2] The 2012 dividends include the proposed final dividend of HK5 cents per share.

[3] Prior to and including the 2008 Interim Report, eligible profit included all attributable profit in the period. But after the 2008 Interim Report eligible profit excluded vessel disposal gains.

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Corporate Information

Board of Directors

Executive Directors

Mr. David M. Turnbull (Chairman)
Mr. Mats H. Berglund (Chief Executive Officer)
Mr. Jan Rindbo (Chief Operating Officer)
Mr. Andrew T. Broomhead (Chief Financial Officer)
Mr. Wang Chunlin
Mr. Chanakya Kocherla

Independent Non-executive Directors

Mr. Patrick B. Paul
Mr. Robert C. Nicholson
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

Page 67
Directors & Senior Management Biographies

Principal Board Committees

Executive Committee

Mr. Mats H. Berglund (Chairman)
Mr. David M. Turnbull
Mr. Jan Rindbo
Mr. Andrew T. Broomhead
Mr. Wang Chunlin
Mr. Chanakya Kocherla

Audit Committee

Mr. Patrick B. Paul (Chairman)
Mr. Robert C. Nicholson
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

Remuneration and Nomination Committees

Mr. Robert C. Nicholson (Chairman)
Mr. Patrick B. Paul
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

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Auditors

PricewaterhouseCoopers

Solicitors

Mayer Brown JSM
Linklaters
Vincent T.K. Cheung, Yap & Co.

Company Secretary

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

Website

http://www.pacificbasin.com

Listing Venue/Listing Date

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")/14 July 2004

Stock Code

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

Public and Investor Relations

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Total Shares In Issue

1,936,577,119 as at 31 December 2012

Pacific Basin

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