Pacific Basin Shipping Limited

(*incorporated in Bermuda with limited liability*)
(Stock Code: 2343)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2019

The Board of Directors (the "Board") of Pacific Basin Shipping Limited ("Pacific Basin" or the "Company") is pleased to announce the results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2019 as follows:

BUSINESS HIGHLIGHTS

Group

- We booked an EBITDA of US$230.7 million and a net profit of US$25.1 million
- 2019 was a volatile and weaker year for dry bulk shipping, but we continued to perform well relative to the market
- Our Handysize and Supramax TCE earnings outperformed market indices by 41% and 24%
- We secured two revolving credit facilities, repaid and issued new convertible bonds achieving a lower coupon, and issued new shares as part payment for four ships, further enhancing our balance sheet and liquidity position
- Our year-end available liquidity amounted to US$383 million with net gearing of 35% (net borrowings to net book value of owned vessels)
- The Board recommends a dividend per share of HK2.1 cents

	Year Ended 31 December	
US$ Million	**2019**	2018
Revenue	**1,585.9**	1,591.6
Profit Attributable to Shareholders	**25.1**	72.3
Underlying Profit	**20.5**	72.0
EBITDA #	**230.7**	215.8
Basic Earnings per share *(HK cents)*	**4.3**	12.9
Proposed Final and Full Year Dividends per share *(HK cents)*	**2.1/2.1**	3.7/6.2

EBITDA (earnings before interest, tax, depreciation and amortisation) is gross profit less indirect general and administrative overheads, excluding: depreciation and amortisation; exchange differences; share-based compensation; and net unrealised derivative income and expenses.

Fleet

- We took delivery of eight modern vessels and sold two older ships in 2019 – Three further deliveries and one sale will increase our owned fleet to 117 ships by end April 2020
- Including chartered ships, we operated an average of 229 Handysize and Supramax ships overall
- We have covered 42% and 60% of our Handysize and Supramax vessel days for 2020 at US$8,910 and US$11,390 per day net respectively
- Our blended vessel operating expenses averaged US$4,080 per day and we maintain a competitive cost structure overall

Our Fleet (as at 31 January 2020)

	Vessels in operation			Total
	Owned[1,2]	Long-term Chartered	Short-term Chartered[3]	
Handysize	81	17	19	117
Supramax	34	6	41	81
Post-Panamax	1	1	0	2
Total	116	24	60	200

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

Outlook

- 2019 saw higher net fleet growth than expected due to almost no newbuilding delivery shortfall compared to the scheduled orderbook. We expect heavy deliveries of mostly larger ships to continue in first half 2020, but net fleet growth should reduce thereafter, especially in our segments
- Further scrubber retrofitting will continue to take large ships out of service for several weeks, and lower optimal operating speeds due to higher low-sulphur fuel prices could mitigate supply growth in 2020 and beyond
- 2020 has started with seasonal weakness compounded by reduced Chinese demand and disrupted logistics caused by actions to contain the Coronavirus. How this develops further is very difficult to predict, but catch-up demand and stimulus should trigger a rebound once the virus is under control and Chinese activity returns
- Overall minor bulk demand remains healthy in the longer term and we will continue our strategic plan to opportunistically acquire good quality secondhand ships and trade up some of our smaller, older ships

CHAIRMAN'S STATEMENT

A Solid Performance in a Challenging Market

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

2019 Dividend

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

Effective Platform for a Sustainable Business

Robust Business Model and Exceptional Fleet

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

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

Rising to Greater Environmental Challenges

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

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

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

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

Experienced Board and Strong Governance

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

Our commitment to strong corporate governance – sound internal controls, transparency and accountability to all stakeholders – continues to underpin all components of our business and seeks to enhance stakeholder confidence in Pacific Basin as a partner and a place to invest.

Competitive Funding, Healthy Balance Sheet and Competitive Cost Structure

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

These funding initiatives all contribute to our competitive P&L breakeven levels and further enhance our balance sheet and liquidity position so as to support the strategic expansion and renewal of our Supramax and Handysize fleet.

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

World-class Industry Reputation, Excellent Team, Sensible Values

We again received several awards in 2019, including Lloyd's List Asia Pacific's award for Excellence in Dry Bulk Shipping, the International Bulk Journal's People Development Award, and Seatrade Asia and Marine Money's Deal of the Year Award. These awards specifically acknowledged our focus on our customers and on investment in our people, their safety and the sustainability and growth of our business. We also won a number of Environmental Social Governance awards recognising our continued commitment to good corporate governance, investor relations and Corporate Social Responsibility.

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

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

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

Weathering Hong Kong and PRC Challenges

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

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

Robust Strategy and Well Positioned for the Future

We remain committed to our Handysize and Supramax focus, our effective strategy, and to always refining and improving our fleet and how we do business.

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

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

David Turnbull
Chairman

Hong Kong, 27 February 2020

CHIEF EXECUTIVE'S REVIEW

Financial Results

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

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

Demand Disruption and Larger than Expected Fleet Growth Drove Market Volatility

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

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

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

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

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

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

Competitive on Every Level

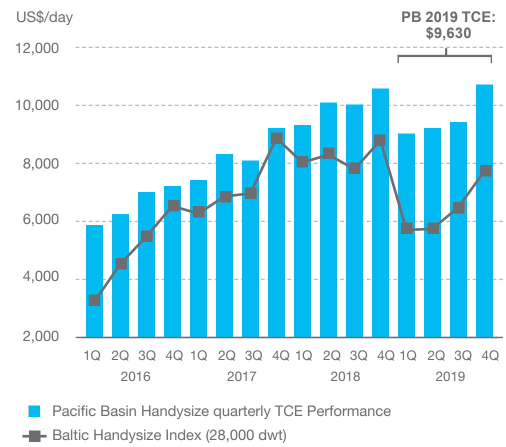
While our average Handysize and Supramax daily TCE earnings of US$9,630 and US$11,720 per day net were down 4% year on year, our outperformance over the BHSI and BSI indices increased to 41% and 24% respectively.

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

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

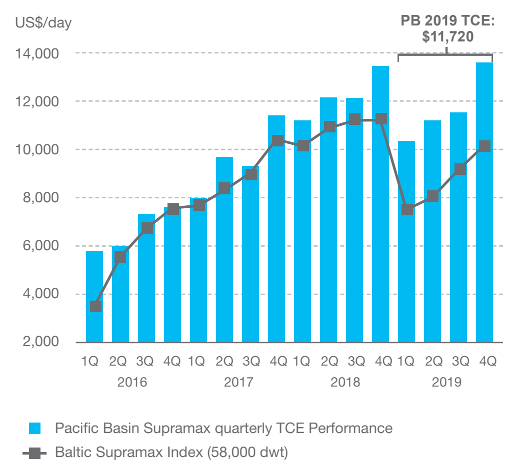
The premium we generate over index earnings is driven by harnessing our experienced commercial and technical teams, global office network, strong cargo support and large fleet of high-quality interchangeable ships in ways that optimise ship and cargo combinations for maximum utilisation. As a result, our ships are laden with cargo over 90% of the time. Our cost competitiveness comes primarily from scale benefits and other efficiencies we generate through good systems and strict cost control.

PB Handysize TCE Performance



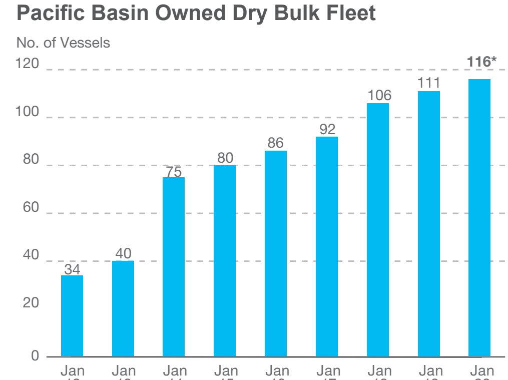
Source: Baltic Exchange, Pacific Basin

PB Supramax TCE Performance



Source: Baltic Exchange, Pacific Basin

Pacific Basin Owned Dry Bulk Fleet



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

Executing our Fleet Growth Strategy

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

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

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

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

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

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

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

Strong Balance Sheet with Diverse Funding Sources

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

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

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

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

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

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

Environmental Regulations Impacting Vessel Speed and Investment Decisions

2020 Global Sulphur Limit

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

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

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

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

Ballast Water Management

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

Decarbonisation and shipping's moon-shot ambition

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

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

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

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

Market Outlook

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

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

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

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

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

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

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

Well Positioned for the Future

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

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

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

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

We continue to strive towards our vision of being the first choice partner for customers and other stakeholders, all of whom we acknowledge for the part they play in our success. We thank all our stakeholders for your continued support. Having navigated a difficult decade including a 45-year low in 2016, and despite the current turbulence, we are looking forward to a new and much better decade ahead for dry bulk shipping!

Mats Berglund
Chief Executive Officer

Hong Kong, 27 February 2020

Possible Market Drivers in the Medium Term

OPPORTUNITIES

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

THREATS

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

MARKET REVIEW

Freight market summary

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

US$6,830 net ⬇ 17%
Handysize 2019 average market spot rate

US$9,450 net ⬇ 13%
Supramax 2019 average market spot rate

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

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

Minor Bulk Drives Demand

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

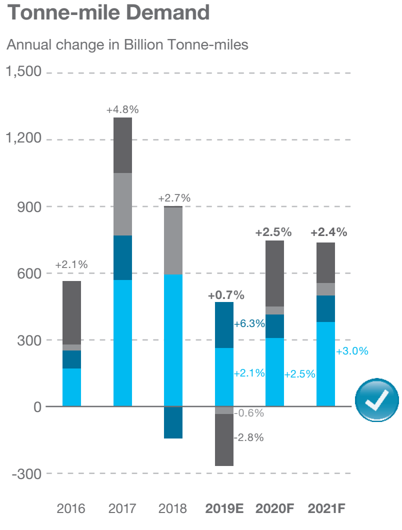
Demand weakness in the first half was mainly due to severely disrupted iron ore and grain trades directly affecting larger bulk carriers but also impacting sentiment in the market for smaller vessel types. Australian ore exports suffered weather-related interruptions and Brazilian iron ore exports were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

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

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

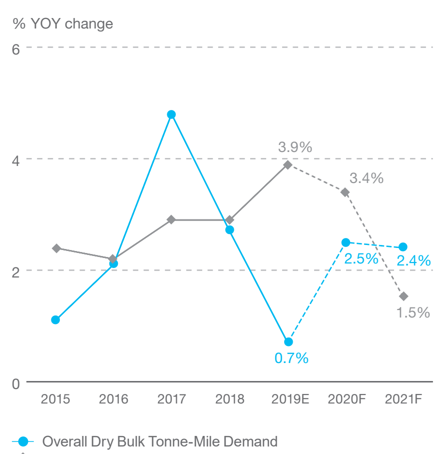
Better Demand and Supply Balance in Our Segments

Annual Change in Global Dry Bulk Tonne-mile Demand



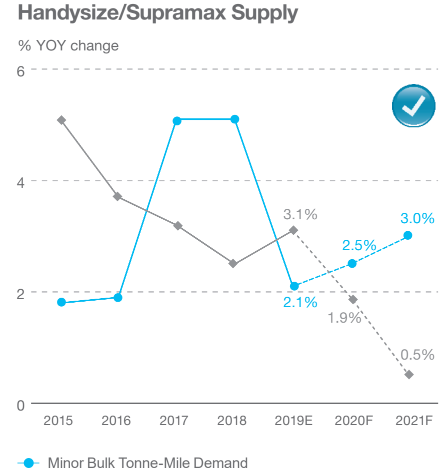
Source: Clarksons Research, data as at February 2020

Overall Dry Bulk Demand & Supply



Source: Clarksons Research, supply data as at February 2020

Minor Bulk Demand and Handysize/Supramax Supply



Source: Clarksons Research, supply data as at February 2020

Higher net fleet growth than expected in 2019

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

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

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

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

Ship Values Remain Stable

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

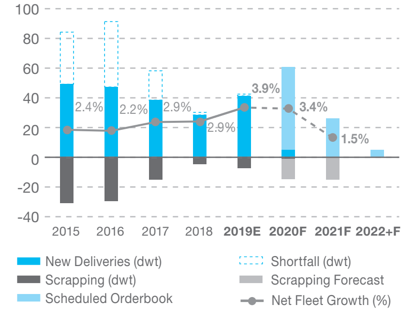
Supply Developments Favour Smaller Vessels

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

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

Overall Dry Bulk Supply Development

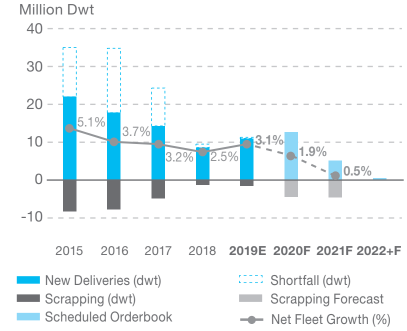
Million Dwt



Source: Clarksons Research, data as at February 2020

Handysize/Supramax Supply Development

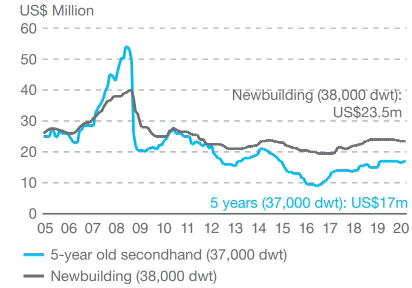
Million Dwt



Source: Clarksons Research, data as at February 2020

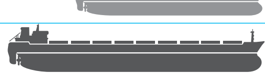
Handysize Vessel Values

US$ Million



Source: Clarksons Research, data as at 21 February 2020

Source: Clarksons Research, data as at 1 February 2020

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

OUR PERFORMANCE

Our business generated an underlying profit of US$20.5 million (2018: underlying profit of US$72.0 million) in volatile and overall weaker minor bulk market conditions. We generated daily earnings that outperformed the BHSI and BSI indices and continued to maintain good control of our vessel operating costs.

Operating Performance

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

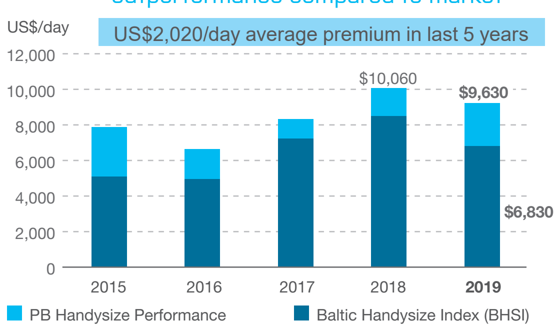
+/- Note: *In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.*

Key Performance Indicators KPI

PERFORMANCE VS MARKET

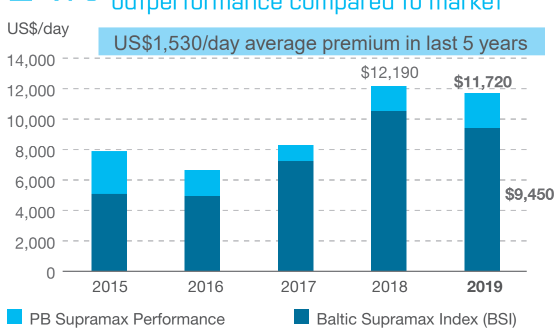
Handysize

41% outperformance compared to market



Supramax

24% outperformance compared to market

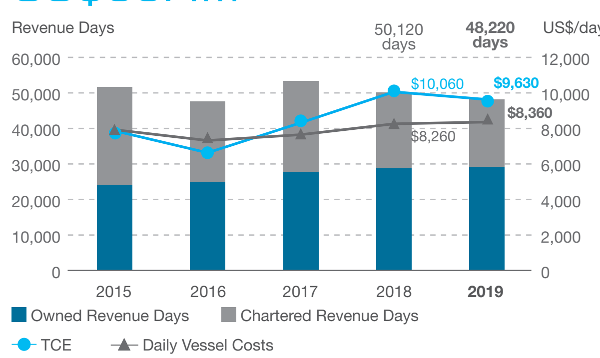


- Our outperformance in 2019 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.

PROFITABILITY

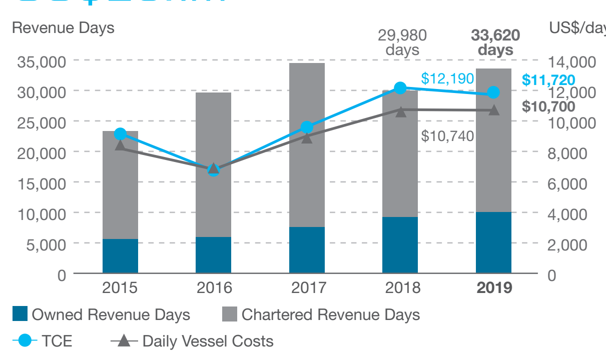
Handysize

US$55.4m contribution



Supramax

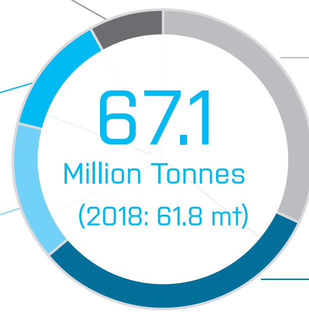
US$23.1m contribution



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

Our Cargo Volumes in 2019

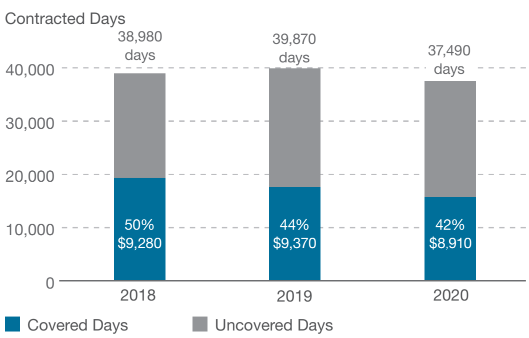
Minerals	**8%**
Salt	4%
Sand & Gypsum	3%
Soda Ash	1%
Energy	**13%**
Coal	7%
Petcoke	4%
Wood Pellets	2%
Metals	**15%**
Ores	7%
Concentrates	5%
Alumina	2%
Others	1%



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

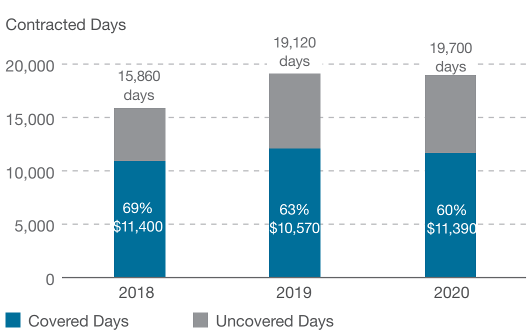
FUTURE EARNINGS AND CARGO COVER

Handysize



US$ per day, as at mid-February

Supramax

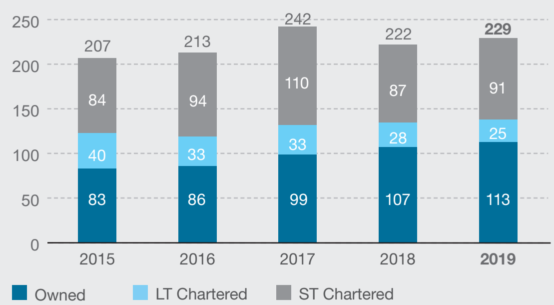


US$ per day, as at mid-February

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

PACIFIC BASIN FLEET DEVELOPMENT

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



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

DAILY VESSEL COSTS

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

Owned Vessel Costs

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

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

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

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

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

Finance costs – Our owned vessels' daily P/L and cash finance costs were US$690 and US$660 respectively for Handysize and US$990 and US$950 respectively for Supramax. The difference between the P/L and cash finance costs reflects the difference between the effective interest and coupon rate of our convertible bonds.

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

Chartered Vessel Costs

Adoption of HKFRS 16 "Leases"

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

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

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

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

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

General and Administrative ("G&A") Overheads

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

VESSEL COMMITMENTS

Vessel Capital Commitments

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

As at 31 December 2019, the Group had options to purchase 5 Handysize, 2 Supramax and 1 Post-Panamax vessels at predetermined times and prices during the period of their leases. These options are not expected to be exercised under current market conditions.

Vessel Lease Commitments

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

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

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

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

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

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

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

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

FUNDING

Cash Flow and Cash

The Group's four main sources of funds are operating cash flows, secured loans, convertible bonds and equity. The major factors influencing future cash balances are operating cash flows, the purchase and sale of vessels, and drawdown and repayment of borrowings.

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

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

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

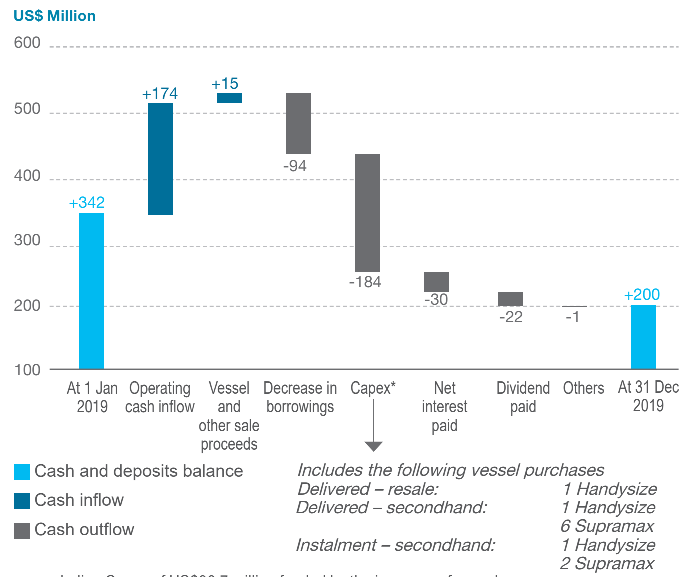
Key Developments in 2019

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

As at 31 December 2019:

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

Sources and Uses of Group Cash in 2019



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

Cash and Deposits

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

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

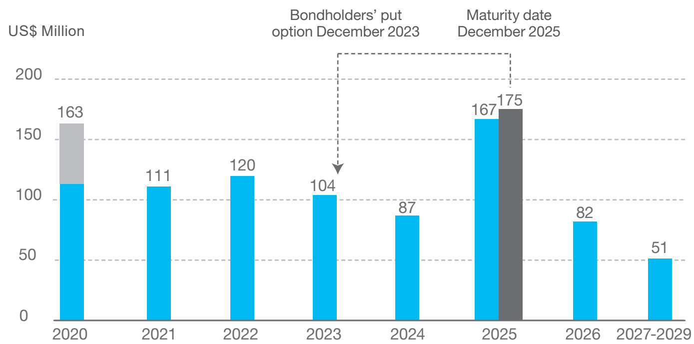
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong and Singapore.

The Group's cash and deposits at 31 December 2019 comprised US$197.8 million in United States Dollars and US$2.4 million in other currencies. They are primarily placed in liquid deposits of three months or less and saving accounts. This maintains liquidity to meet the Group's vessel purchase commitments and working capital needs.

During the year, Treasury achieved a 2.7% return on the Group's cash.

Borrowings and Undrawn Committed Facilities

Schedule of Reduction in Borrowings and Undrawn Committed Facilities



The Group's Treasury function arranges financing by leveraging the Group's balance sheet to optimise the availability of cash resources of the Group. The aggregate borrowings and undrawn committed facilities of the Group at 31 December 2019, including the liability component of the convertible bonds, amounted to US$1,045.8 million (2018: US$961.1 million) and are mainly denominated in United States Dollars.

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

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

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

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

The Group monitors the loan-to-asset value requirements on its bank borrowings. If the market values of the Group's mortgaged assets fall below the level prescribed by our lenders, the Group may pledge additional cash or offer other additional collateral unless the banks offer waivers for technical breaches.

As at 31 December 2019:

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

P/L impact:

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

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

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

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

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

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

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

P/L impact:

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

Finance Costs

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

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

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

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

FINANCIAL STATEMENTS

Group Performance Review

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

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

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

EBITDA (earnings before interest, tax, depreciation and amortisation) is gross profit less indirect general and administrative overheads, excluding: depreciation and amortisation; exchange differences; share-based compensation; and net unrealised derivative income and expenses.

Notes

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

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

Consolidated Income Statement

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

Consolidated Statement of Comprehensive Income

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

Consolidated Balance Sheet

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

Notes:

1. General information and basis of preparation

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").

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost basis, except for certain financial assets and financial liabilities (including derivative instruments) and assets held for sale, which are carried at fair value.

2. Adoption of new HKFRS

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2018, except for the adoption of new standard HKFRS 16 "Leases".

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

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

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

(a) Impact on the financial statements

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

Income Statement

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

Balance Sheet (extract)

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

Cash Flow Statement (extract)

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

(b) Transition to HKFRS 16 "Leases"

The Group has adopted HKFRS 16 "Leases" using the modified retrospective approach from 1 January 2019 without restating comparative figures by recognising the cumulative effects as an adjustment to the opening balance of retained profits as at 1 January 2019. The 2019 opening balance restatement effect is disclosed below. Line items that were not affected by the changes have not been included.

Balance Sheet (extract)

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

3. Revenue and segment information

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

Geographical segment information is not presented as the management considers that the nature of our shipping services, which are carried out internationally, precludes a meaningful allocation of operating profits to specific geographical segments.

4. Profit before taxation

Profit before taxation is stated after charging/(crediting) the following:

US$'000	2019	2018
Bunkers consumed	381,418	382,706
Port disbursements and other voyage costs	338,895	337,609
Depreciation		
– owned vessels	127,477	114,537
– other property, plant and equipment	1,857	1,798
– right-of-use assets	36,576	–
Interest on borrowings		
– bank loans	31,684	26,343
– convertible bonds	3,796	6,534
– other borrowings	1,925	2,154
Interest on lease liabilities		
– vessels	4,243	–
– other property, plant and equipment	779	–
Net (gains)/losses on bunker swap contracts	(7,954)	1,796
Provision for vessel impairment losses	1,513	705
Losses on disposal of property, plant and equipment	3,392	37
Losses on disposal of assets held for sale	174	–
Utilisation and write-back of onerous contracts provisions	–	(28,846)

5. Taxation

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

The amount of taxation charged to the income statement represents:

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

6. Dividends

	2019			2018		
	HK cents per share	US cents per share	US$'000	HK cents per share	US cents per share	US$'000
Interim dividend	–	–	–	2.5	0.3	14,315
Proposed final dividend (a)	2.1	0.3	12,710	3.7	0.5	21,825
Total dividends for the year	2.1	0.3	12,710	6.2	0.8	36,140
Dividends paid during the year (b)	3.7	0.5	21,825	2.5	0.3	14,315

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

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

7. Earnings per share ("EPS")

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's 2013 Share Award Scheme ("SAS") and unvested restricted shares.

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

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's SAS but after adjusting for the number of potential dilutive ordinary shares from convertible bonds and unvested restricted shares where dilutive.

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

8. Trade and other receivables

Net trade receivables are included in trade and other receivables and their ageing based on invoice date is as follows:

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

9. Trade and other payables

Trade payables are included in trade and other payables and their ageing based on due date is as follows:

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

Purchase, sale or redemption of securities

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

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

Directors' securities transactions

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

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

Senior management and staff's securities transactions

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

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

Compliance with the corporate governance code

Throughout the year, the Group has been fully compliant with all code provisions of the Corporate Governance Code as contained in Appendix 14 of the Listing Rules.

Review by audit committee and auditors

The Audit Committee of the Company has reviewed this annual results announcement and the Annual Report of the Company for the year ended 31 December 2019.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2019 as set out in this preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on this preliminary announcement.

Final dividend and book closure

The Board has proposed a final dividend for the year ended 31 December 2019 of HK2.1 cents per share and if such dividend is approved by the shareholders at the 2020 Annual General Meeting of the Company, it is expected to be paid on or about 5 May 2020 to those shareholders whose names appear on the Company's register of members on 21 April 2020.

The register of members will be closed on 21 April 2020 on which no transfer of shares in the Company will be effected. In order to qualify for the proposed final dividend, all transfer forms accompanied by the relevant share certificates must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, at Room 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration not later than 4:30 p.m. on 20 April 2020. The ex-dividend date for the final dividend will be on 17 April 2020.

Annual report and disclosure of information on stock exchange's website

This announcement of annual results containing all the information required by paragraphs 45(1) to 45(9) of Appendix 16 of the Listing Rules has been published on the Stock Exchange's website at www.hkexnews.hk and on the Company's website at www.pacificbasin.com.

The Company's 2019 Annual Report will be available on the Company's website at www.pacificbasin.com no later than the date on which it is sent to those shareholders who have elected to receive a printed copy on or around 10 March 2020.

Directors

As at the date of this announcement, the Directors of the Company are:

Executive Directors:
David Muir Turnbull, Mats Henrik Berglund and Peter Schulz.

Independent Non-executive Directors:
Patrick Blackwell Paul, Robert Charles Nicholson, Alasdair George Morrison, Daniel Rochfort Bradshaw, Irene Waage Basili, Stanley Hutter Ryan and Kirsi Kyllikki Tikka.

Note: The English text of this announcement shall prevail over the Chinese text in case of any inconsistency.