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ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 as follows:

BUSINESS HIGHLIGHTS

Group

- We recorded significantly stronger results in 2018 due to better dry bulk market conditions and initiatives we took to position ourselves for a recovery
- We booked an EBITDA of US$216 million and net profit of US$72 million
- The Board recommends a final dividend per share of HK3.7 cents, giving full-year dividends of HK6.2 cents
- Our Handysize and Supramax TCE earnings outperformed the market indices by 22% and 12%
- We closed revolving credit and term loan facilities amounting to US$365 million
- Our year-end cash position was US$342 million with net gearing of 34%

US$ Million	Year Ended 31 December 2018	2017
Revenue	**1,591.6**	1,488.0
EBITDA #	**215.8**	133.8
Underlying Profit	**72.0**	2.2
Profit Attributable to Shareholders	**72.3**	3.6
Basic Earnings per share (HK cents)	**12.9**	0.7
Proposed Final and Full Year Dividends per share (HK cents)	**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; net unrealised bunker swap contract income and expenses; net unrealised forward freight agreements income and expenses; utilisation and write-back of onerous contract provisions; and Charter Hire Reduction adjustments.

Fleet

- We acquired seven modern vessels including four funded 50% by issuing shares, and have sold one older vessel
- We currently own 111 ships and, including chartered vessels, we typically operate over 200 ships overall
- We have covered 44% and 63% of our Handysize and Supramax revenue days for 2019 at US$9,370 and US$10,570 per day net respectively
- Our blended Handysize and Supramax vessel operating expenses averaged US$3,850 per day and we maintain a competitive cost structure overall, primarily through scale benefits and good cost control

Our Fleet (as at 31 January 2019)

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

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

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

Outlook

- The US-China trade conflict has undermined dry bulk sentiment and compounded the seasonal market weakness in early 2019
- However, the seasonal recovery is now underway and global dry bulk trade is expected to continue to grow in 2019, though at a slower pace
- We expect to see increased volatility in 2019 influenced by uncertainty about the trade conflict, but also by environmental regulations contributing to tighter supply
- We see upside in secondhand vessel values and continue to look opportunistically at attractive secondhand ship acquisitions
- Our robust cargo-focused business model, large owned fleet, healthy cash position and competitive cost structure position us well for the future

CHAIRMAN'S STATEMENT

A solid performance all round for Pacific Basin

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

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

2018 final dividend

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

Effective platform for a sustainable business

Exceptional fleet and robust business model

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

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

Competitive funding, healthy balance sheet and competitive cost structure

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

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

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

World-class industry reputation, excellent team, sensible values

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

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

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

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

Experienced board and strong governance

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

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

Robust strategy and well-positioned for the future

We remain committed to our Handysize and Supramax focus, our effective strategy and to always refining and improving our fleet and how we do business. Staying true to our corporate mission and values – such as through customer attention and solutions focus, responsiveness and reliability, safety and care, and integrity and accountability – is key to the longer term sustainability of our business, irrespective of market conditions.

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

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

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

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

David Turnbull
Chairman

Hong Kong, 28 February 2019

CHIEF EXECUTIVE'S REVIEW

Much improved financial results

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

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

Market recovery continued

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

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

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

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

PB Handysize TCE Performance

US$/day net

PB 4Q TCE: $10,630

■ Pacific Basin Handysize quarterly TCE Performance
—■— Baltic Handysize Index (BHSI)

Source: Pacific Basin, Baltic Exchange

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

Pacific Basin continues to outperform

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

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

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

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

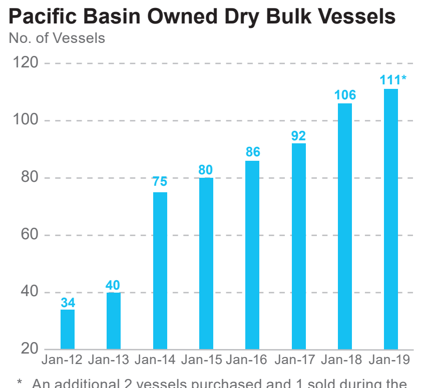
Positive growth initiatives

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

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

These transactions have increased our owned fleet to 111 ships on the water, grown the proportion of our owned versus chartered ships (especially in Supramax), and reduced our owned vessel daily break-even levels.

Pacific Basin Owned Dry Bulk Vessels



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

As at 31 January 2019

We have grown our owned fleet more than threefold since 2012, positioning us well for the market recovery. Including chartered vessels, we operated an average of 224 ships in 2018.

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

Strengthening balance sheet

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

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

Environmental regulations impacting vessel investment decisions

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

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

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

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

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

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

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

Market outlook

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

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

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

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

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

Well positioned for the future

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

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

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

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

Towards the end of 2018, Pacific Basin won Dry Bulk Operator of the Year at the Lloyd's List Global Awards and the Customer Care Award at the International Bulk Journal's IBJ Awards. These awards specifically acknowledged our commitment to quality operations, our fleet growth and our commitment to placing customers at the focal point of our business, striving to provide them with a superior experience, and investing in a truly customer-focused infrastructure and business model. The awards are welcomed recognition of both our seagoing and shore staff's combined contributions that drive us towards our vision of being the first choice partner for customers and other stakeholders, all of whom we acknowledge for the part they play in our success.

We thank all our stakeholders for your continued support.

Mats Berglund
Chief Executive Officer

Dry Bulk Outlook

Possible market drivers in the medium term

Opportunities

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

Threats

- Slowing global economic growth affecting the trade in dry bulk commodities
- Reduction in Chinese industrial growth and investments impacting demand for dry bulk shipping
- Environmental policy in China encouraging greater shift to renewable energy, possibly impacting coal imports
- Escalating trade disputes impacting global GDP growth, weakening sentiment and undermining dry bulk demand
- Excessive new ship ordering if the price gap between newbuilding and secondhand ships closes
- Periods of low fuel prices supporting faster ship operating speeds which increases supply
- Iron ore infrastructure disruptions in Brazil impacting global iron ore tonne-mile trade flows

MARKET REVIEW

Freight market summary

US$8,270 net ⬆ +14%
Handysize 2018 average market spot rate

US$10,910 net ⬆ +23%
Supramax 2018 average market spot rate

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

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

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

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

Key supply developments

+2.4% ⬇ 1.2% YOY
Global minor bulk capacity 2018

+2.9% ⬇ 0.1% YOY
Total dry bulk capacity 2018

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

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

The global dry bulk fleet continues to operate at below full speed, so there remains potential for effective tonnage supply to increase without adding new ships to the fleet, if fuel prices decrease. Similarly, effective supply can tighten if fuel prices increase and ships slow down.

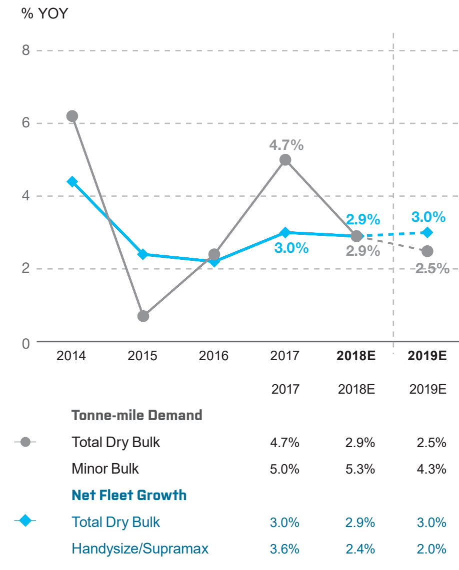
Key demand developments

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

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

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

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



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

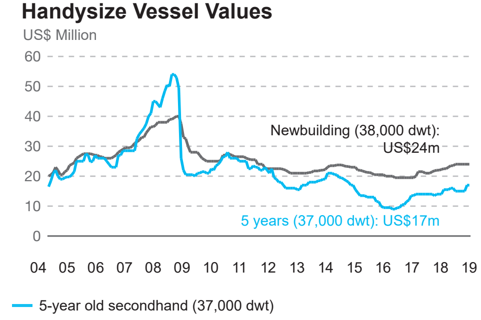
Source: Clarksons Research, data as at February 2019

Ship values

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

US$17.0m ⬆ +21%

Secondhand Handysize YOY



Source: Clarksons Research, data as at 22 February 2019

Scheduled orderbook

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

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

The combined Handysize and Supramax orderbook stands at 6.5%.

Source: Clarksons Research, data as at February 2019

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

OUR PERFORMANCE

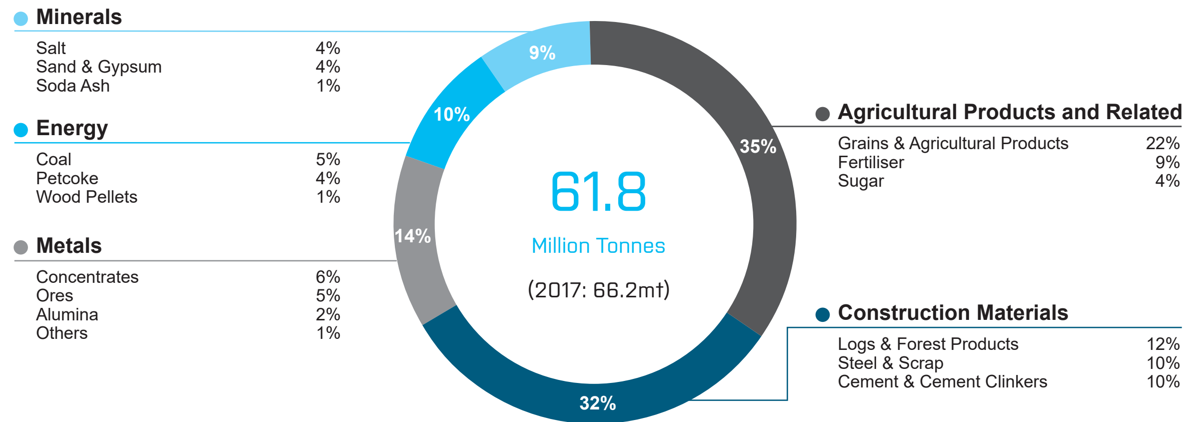
Our business generated an underlying profit of US$72.0 million (2017: US$2.2 million) in a markedly better year for dry bulk shipping. In the improved market conditions, we generated daily earnings that outperformed the BHSI and BSI indices and continued to maintain good control of our vessel operating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

Operating Performance

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

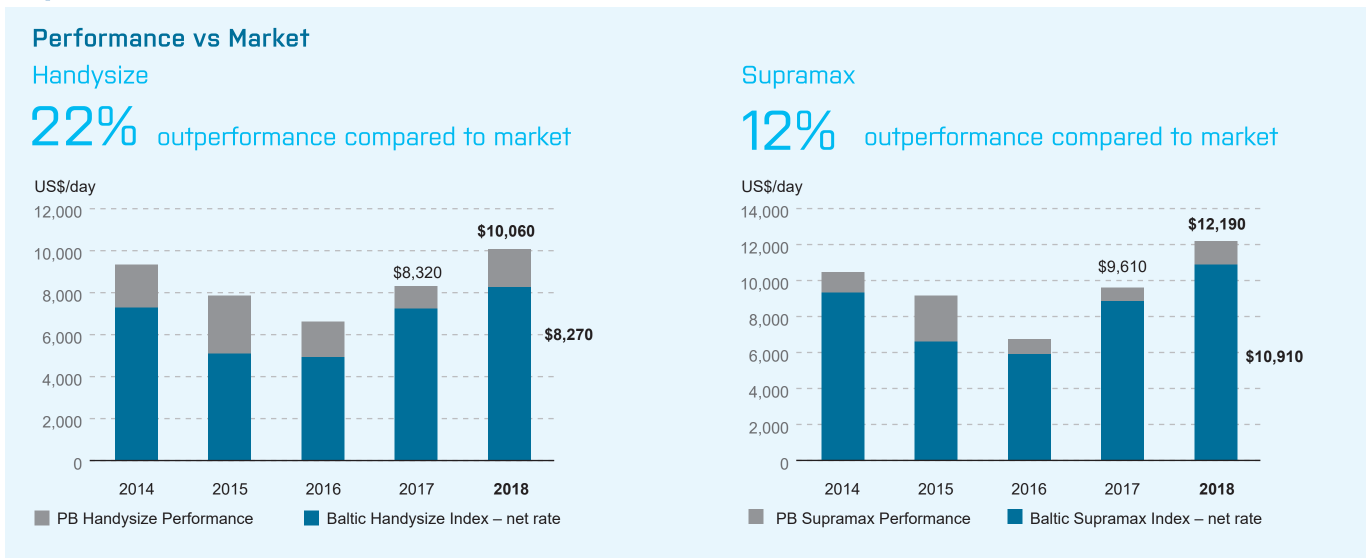
+/- Note: In our tabulated figures, positive changes represent an improving result and negative changes represent a worsening result.

Our Cargo Volumes in 2018



Key Performance Indicators KPI

Performance vs Market

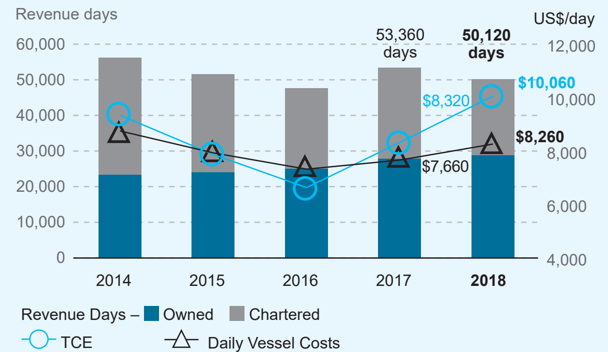


- Our outperformance in 2018 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.

Profitability

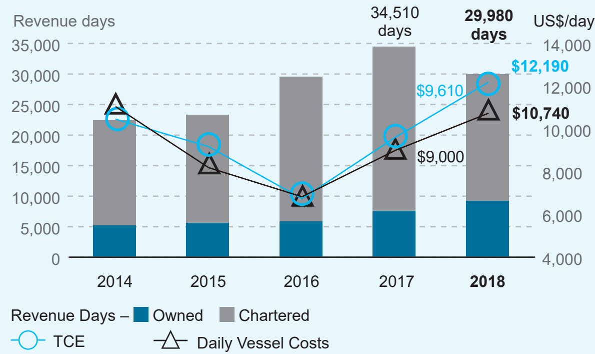
Handysize

US$85.5m contribution



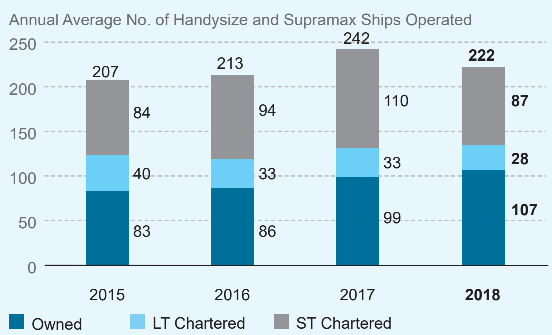
Supramax

US$42.1m contribution



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

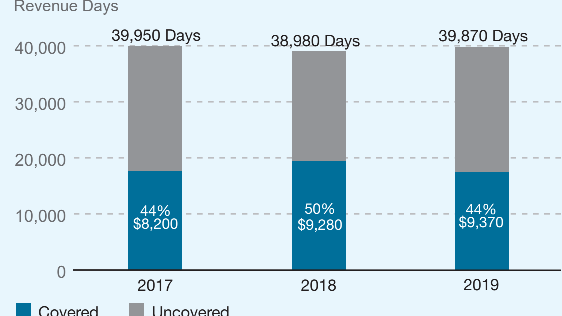
Pacific Basin Fleet Development



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

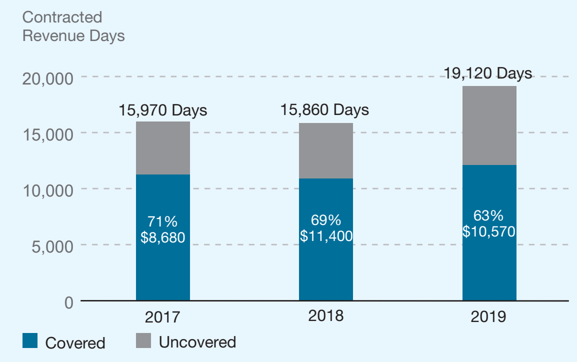
Future Earnings and Cargo Cover

Handysize



US$ per day; as at mid-February

Supramax



US$ per day; as at mid-February

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

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

Daily vessel costs and commitments

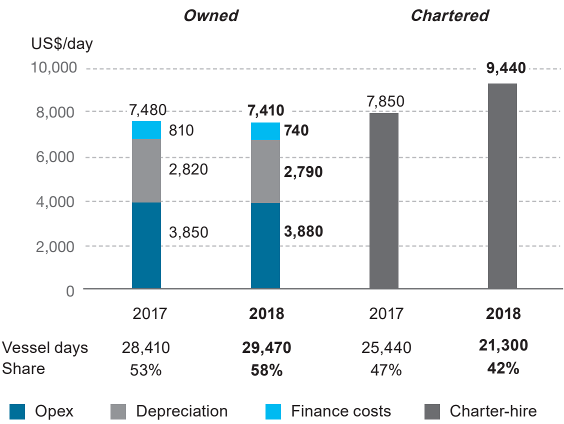
The cost of owning and operating dry bulk ships is the largest component of our Group's total costs, and our ability to maintain good control of our "daily vessel costs" has a significant bearing on our operating margins and our financial performance overall. We provide below a short analysis of our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

Vessels' daily P/L costs

Handysize

Blended US$8,260 (2017: US$7,660)

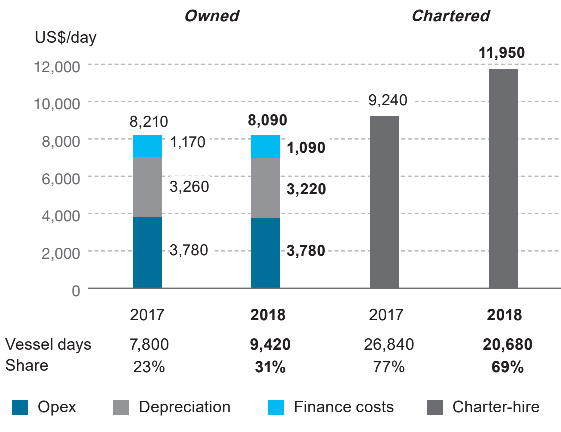
(excluding G&A overheads)



Supramax

Blended US$10,740 (2017: US$9,000)

(excluding G&A overheads)



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

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

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

Finance costs – Our owned vessels' daily P/L and cash finance costs were US$740 and US$680 respectively for Handysize and US$1,090 and US$1,000 respectively for Supramax. The difference between the P/L and cash finance costs reflects the difference between the effective interest and coupon rate of our convertible bonds.

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

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

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

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

Vessel operating lease commitments

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

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

Commitments excluding index-linked vessels

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

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

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

Index-linked vessel operating lease commitments refer to leases with rates linked to the Baltic Handysize and Supramax indices (as applicable). 80 index-linked Supramax days are currently committed for 2019.

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

Onerous contract provisions

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

Charter Hire Reduction by issuing new shares in 2016

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

Vessel Capital Commitments

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

As at 31 December 2018, the Group had options to purchase 7 Handysize, 2 Supramax and 1 Post-Panamax vessels at predetermined times and prices during the period of their leases. These options are not expected to be exercised under current market conditions.

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

FUNDING

Cash flow and cash

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

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

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

Developments

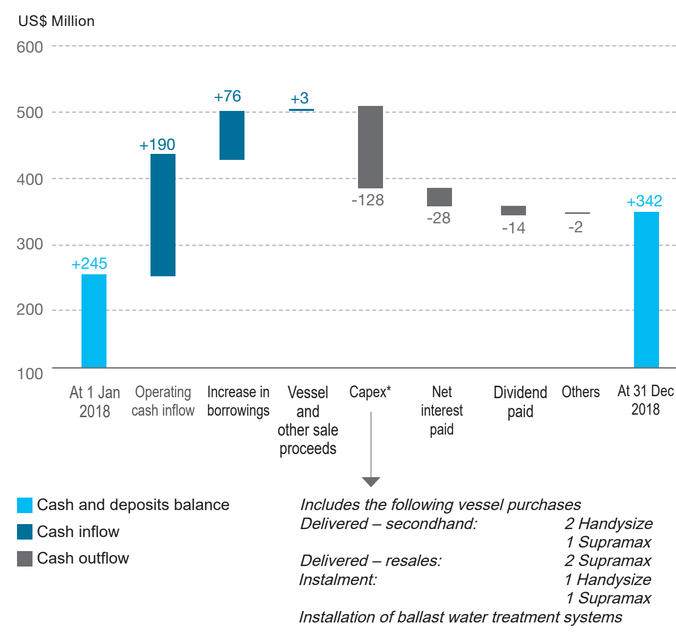
During 2018:

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

As at 31 December 2018:

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

Sources and Uses of Group Cash in 2018



* excluding Capex of US$18 million funded by equity

Cash and Deposits

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

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

Treasury is permitted to invest in a range of cash and investment products subject to limits specified in the Group Treasury Manual. These include overnight and term deposits, money market funds, liquidity funds, certificates of deposit and structured notes.

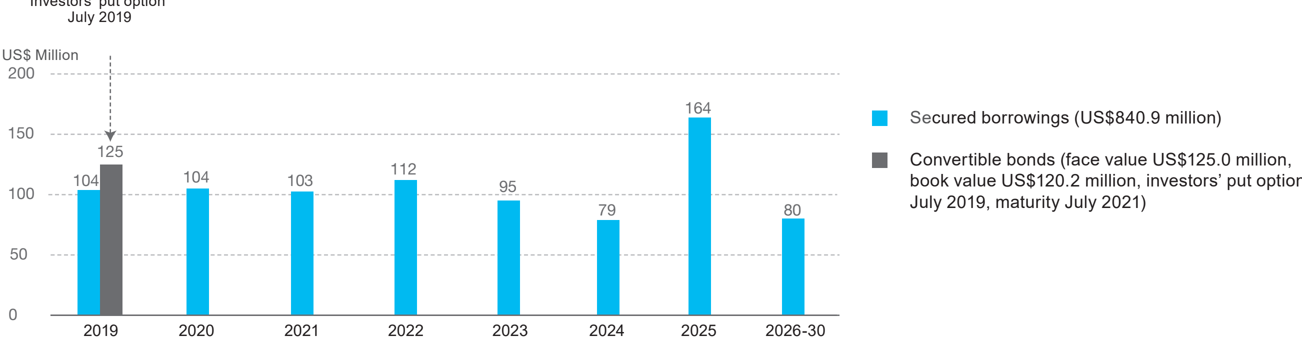
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

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

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

Borrowings

Schedule of Repayments of Borrowings



The Group's Treasury function arranges financing by leveraging the Group's balance sheet to optimise the availability of cash resources of the Group. The aggregate borrowings of the Group at 31 December 2018, which comprised secured borrowings and the liability component of convertible bonds, amounted to US$961.1 million (2017: US$881.0 million) and are denominated in United States Dollars.

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

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

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

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

As at 31 December 2018:

- The Group's secured borrowings were secured by 105 vessels with a total net book value of US$1,688.5 million and an assignment of earnings and insurances in respect of these vessels.
- The Group was in compliance with all its loans-to-asset value requirements.

P/L impact:

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

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

Convertible Bonds – Liability Component is US$120.2 million (2017: US$117.7 million)

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

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

P/L impact:

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

Finance costs

Finance costs by nature

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

Note: The convertible bonds have a P/L cost of US$6.5 million and a cash cost of US$4.1 million.

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

The Group aims to achieve a balance between floating and fixed interest rates on its long-term borrowings. This is adjusted from time to time, depending on the interest rate cycle, using interest rate swap contracts where appropriate. During the year, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US$0.2 million of interest rate swap contract income were realised. As at 31 December 2018, 58% (2017: 65%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2019 and 2020, we expect about 51% and 43% respectively of the Group's existing long-term borrowings will be on fixed interest rates.

FINANCIAL STATEMENTS

Group performance review

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

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

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

Notes

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

Consolidated income statement

	Note	For the year ended 31 December 2018 US$'000	2017 US$'000
Revenue		**1,591,564**	1,488,019
Cost of services		**(1,507,705)**	(1,463,311)
Gross profit		**83,859**	24,708
Indirect general and administrative overheads		**(6,003)**	(5,310)
Other income and gains		**30,459**	20,431
Other expenses		**(2,416)**	(4,226)
Finance income		**3,513**	3,651
Finance costs		**(35,866)**	(35,998)
Profit before taxation	4	**73,546**	3,256
Tax (charges)/credits	5	**(1,262)**	354
Profit attributable to shareholders		**72,284**	3,610
Earnings per share for profit attributable to shareholders (in US cents)			
Basic earnings per share	7(a)	**1.64**	0.09
Diluted earnings per share	7(b)	**1.61**	0.09

Consolidated statement of comprehensive income

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

Consolidated balance sheet

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

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 HKAS and changes in accounting policies

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2017, except for the adoption of new standards as described below.

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

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers

The impact of the adoption of these standards and the new accounting policies are disclosed in Note (i) 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.

(i) Impact on the Group's financial statements

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

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

Balance Sheet (extract)

US$'000	31 December 2017 (as previously reported)	HKFRS 15 (Note (ii))	HKFRS 9 (Note (iii))	1 January 2018 (restated)
Non-current assets				
Financial assets at fair value through other comprehensive income	–	–	569	569
Available-for-sale financial assets	569	–	(569)	–
Current assets				
Trade and other receivables – current	80,275	(8,784)	–	71,491
Equity				
Retained profits	154,387	(8,784)	1,619	147,222
Other reserves	963,194	–	(1,619)	961,575

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

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

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

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

Balance Sheet (extract)

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

Income Statement (extract)

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

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

(iii) HKFRS 9 "Financial Instruments"

Financial assets at fair value through other comprehensive income

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

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

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

Trade and other receivables

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

Derivatives and hedging activities

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

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.

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

4. Profit before taxation

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

US$'000	**2018**	2017
Bunkers consumed	**382,706**	338,507
Port disbursements and other voyage costs	**337,609**	361,265
Depreciation		
– owned vessels	**114,537**	107,603
– other property, plant and equipment	**1,798**	1,684
Interest on borrowings		
– secured bank loans	**26,343**	26,375
– unsecured convertible bonds	**6,534**	6,400
– other secured borrowings	**2,154**	2,149
Utilisation of provision for onerous contracts	**(16,115)**	(20,273)
Write-back of provision for onerous contracts	**(12,731)**	–
Net losses/(gains) on bunker swap contracts	**1,796**	(5,815)
Provision for impairment losses – vessels	**705**	–
Losses on disposal of property, plant and equipment	**37**	539

5. Taxation

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

The amount of taxation charged/(credited) to the consolidated income statement represents:

US$'000	**2018**	2017
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2017: 16.5%)	**726**	323
Overseas tax, provided at the rates of taxation prevailing in the countries	**410**	348
Adjustments in respect of prior year	**126**	(1,025)
Tax charges/(credits)	**1,262**	(354)

6. Dividends

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

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

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.

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

(b) Diluted earnings per share

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

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

8. Trade and other receivables

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

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

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.

9. Trade and other payables

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

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

Purchase, sale or redemption of securities

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

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 2018.

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 2018 as set out in the 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 the preliminary announcement.

Final dividend and book closure

The Board has proposed a final dividend for the year ended 31 December 2018 of HK3.7 cents per share and if such dividend is approved by the shareholders at the 2019 Annual General Meeting of the Company, it is expected to be paid on or about 7 May 2019 to those shareholders whose names appear on the Company's register of members on 25 April 2019.

The register of members will be closed on 25 April 2019 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 24 April 2019. The ex-dividend date for the final dividend will be on 23 April 2019.

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 2018 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 12 March 2019.

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 and Stanley Hutter Ryan.

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