To Partner

To Deliver

Pacific Basin

Annual Report 2014

Stock Code: 2343

Pacific Basin

What We Do

For 27 years, Pacific Basin has built a strong name as an owner of Handysize bulk carriers and evolved into an industrial provider of freight services to producers and end-users of raw materials and commodities.

Pacific Basin is headquartered and listed in Hong Kong, and has 3,000 seafarers and 340 shore-based staff in 13 offices.

Our core dry bulk business is customer focused, providing industrial users and producers of dry bulk commodities with a professional, high-quality, reliable and competitive freight service, predominantly under long-term cargo contracts and on a spot basis.

Award-winning service

Our customer-focused business model has driven innovative customer service, solid service reliability, enhanced customer satisfaction and highest industry recognition in the form of the "BIMCO Shipping Company of the Year" award in 2014.

Investment & growth

We are on a clear growth trajectory to ensure we are best prepared for the future. Since the end of 2012, we have grown our annual cargo volumes from 41 to 52 million tonnes and more than doubled the size of our owned fleet on the water. Our current commitments will grow our owned dry bulk fleet further to about 100 ships in two years.

Empowered people

Our staff operate globally with a local presence. Our network of eleven customer-facing offices world-wide ensures we create strong bonds, collaboration and trust with our customers and, in turn, drive insight and knowledge back into our business so that we can deliver the best possible service.

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To Partner, To Deliver
What we stand for and what motivates us

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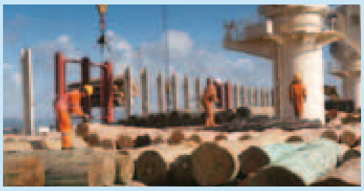

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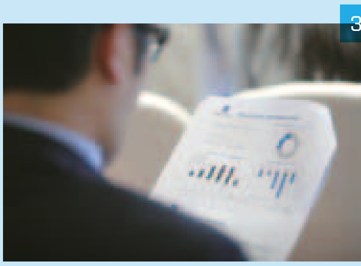

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Financial Statements

Key to navigation symbols

Linkage to related details within the Annual Report

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

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

Audited Information

KPI Key Performance Indicators

+/- In our tabulated figures, positive changes represent an improving result while negative changes represent a worsening result

Business Highlights

Group

In a very difficult market, our results were influenced by:

- the impact on revenues of very low dry bulk market rates
- US$130 million non-cash impairments and provisions reflecting significant changes in dry bulk and bunker fuel markets
- US$91 million towage-related impairment and business disposal charges

EBITDA was positive US$82 million

Robust balance sheet with:

- US$363 million cash and deposits
- net gearing of 40%
- US$350 million of undrawn committed bank facilities
- US$69 million of towage sale proceeds received in early 2015

Dry bulk vessel capital commitments of US$385 million

Fleet

We stopped buying ships in early 2014 and have taken delivery of all 33 secondhand ships that we purchased between late 2012 and early 2014

These dry bulk ships were acquired at historically low prices and have made a positive cash contribution despite weak market

We now operate 218 dry bulk ships of which 80 are owned

We have 18 owned and 14 chartered newbuildings on order

56% of our contracted 40,220 Handysize revenue days in 2015 are covered at US$8,880 per day net

Our towage vessel net book value has reduced to US$41.5 million following sale of harbour towage business

Remaining two RoRo vessels will deliver into buyer's ownership within 2015 generating proceeds of US$60 million

Outlook

Poor start to 2015 with Baltic Dry Index falling to its lowest since indices began in 1985 and a dysfunctional freight market in some regions

We expect weak market to continue in 2015 and take a cautious view on freight earnings outlook

Net fleet growth has reduced, but excessive dry bulk supply is not yet fully absorbed

Low fuel prices may lead to faster ship speeds thereby potentially further increasing shipping supply

Demand growth continues to be threatened by softer outlook for China and most developed economies

We remain focused on the Handy segments and are managing our business to deliver positive contributions even in a weak market and to safeguard our strong cash position and EBITDA generation

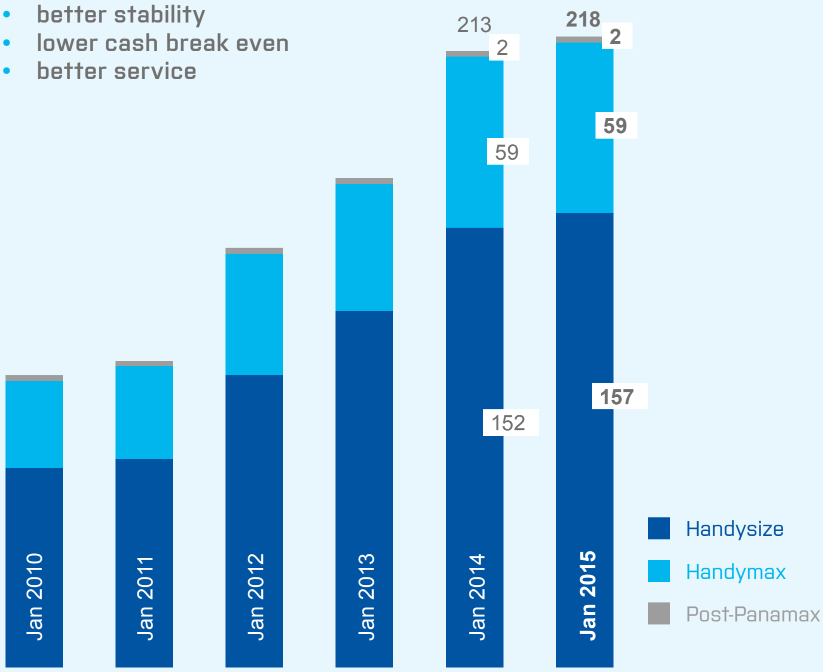
Difficult market will present opportunities for companies able to access capital

Our Dry Bulk Fleet Development

Average number of ships operated

2015: proportionally more owned ships

- better stability
- lower cash break even
- better service



Net (loss)/profit

US$(285)m

(2013: US$1.5m net profit)

Underlying (loss)/profit KPI

US$(56)m 71m

EBITDA

US$82m 30%

Cash position

US$363m 25%

Dividend per share KPI

HK¢5 0%

Financial Summary

	2014 US$ Million	2013 US$ Million
Results		
Revenue [1]	**1,718.5**	1,708.8
Gross (loss)/profit [1]	**(39.6)**	55.1
EBITDA [2]	**82.2**	118.2
Underlying (loss)/profit [3] KPI	**(55.5)**	15.6
Finance costs, net [1]	**(32.8)**	(37.4)
Discontinued operations – loss for the year	**(5.2)**	(8.3)
(Loss)/profit attributable to shareholders	**(285.0)**	1.5
Balance Sheet		
Total assets	**2,307.5**	2,537.4
Net borrowings	**636.3**	551.2
Shareholders' equity	**1,001.7**	1,304.3
Total cash and deposits	**363.4**	486.1
Capital commitments	**384.7**	479.1
Cash Flows		
Operating	**93.7**	98.1
Investing	**(131.7)**	(114.2)
Financing	**(112.5)**	36.8
Per Share Data	**HK cents**	HK cents
Basic EPS	**(115.8)**	0.6
Dividends KPI	**5**	5
Operating cash flows	**38**	39
Net book value	**401**	522
Share price at year end	**313**	555
Market capitalisation at year end	**HK$6.1bn**	HK$10.7bn
Ratios		
Net profit margin	**(17%)**	0.1%
Eligible profit payout ratio	**>100%**	>100%
Return on average equity	**(23%)**	0.1%
Total shareholders' return	**(43%)**	29%
Net borrowings to net book value of property, plant and equipment KPI	**40%**	34%
Net borrowings to shareholders' equity	**64%**	42%
Interest coverage (excluding impairments)	**1.9X**	2.3X

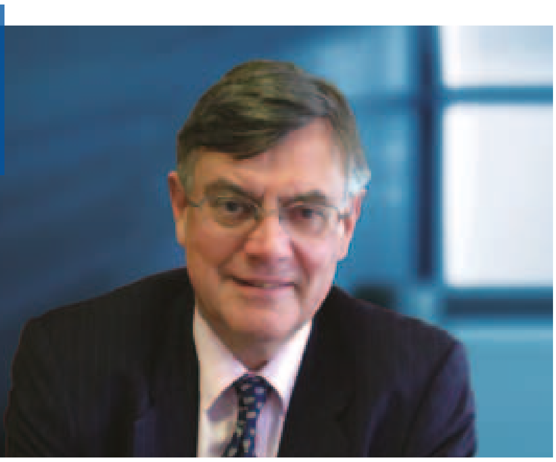
[1] relates to continuing operations

[2] EBITDA (Earnings before interest, tax, depreciation and amortisation) is calculated as gross profit excluding depreciation of vessels and net unrealised bunker swap contract income and expenses, less general and administrative expenses

[3] please refer to page 69 for a definition of underlying profit

Chairman's Statement

Safeguarding our health and service delivery in testing times



David Turnbull
Chairman
Hong Kong, 26 February 2015

A Tough Year in Dry Bulk

2014 was another very difficult year for dry bulk shipping due to oversupply and negative surprises in demand, but our balance sheet remains healthy and we succeeded in generating continued positive EBITDA.

EBITDA

US$82m

Our towage business – most of which we have now sold – faced similar market-related challenges, adding to the significant one-off accounting charges we have had to book that undermined our results for the year.

The Group made an underlying loss of US$56 million, with non-cash impairments and provisions accounting for the majority of our net loss of US$285 million.

Preserving Value in a Weak Market

We are far from happy with these results, but it says much about Pacific Basin's effective business model and competitive cost base that we remain EBITDA positive in these testing times and able to generate Handysize earnings that outperformed spot market rates by 28%.

Page 30
Funding
See details of our funding plan

As at 31 December 2014, we had total cash and deposits of US$363 million and net gearing of 40% illustrating our continued robust balance sheet.

Dividend

The Board has recommended a final dividend of HK 5 cents per share for 2014 (2013: HK 5 cents final) in view of the Group's positive operating cash flow during the year.

Strengthening our Platform

We are enhancing our focus as a specialist dry bulk company. Management made good progress on several strategic initiatives. Despite worsening market conditions, we recently sold our harbour towage interests, which frees up cash and management time for our core dry bulk business.

We made organisational changes affecting all levels of the Company, such as downsizing our offshore towage organisation and the senior management team is also significantly smaller than a year ago. In aggregate, these will reduce our total general and administrative expenses in 2015.

In our dry bulk business, we stopped buying ships in early 2014 as we saw prices increasing on overly optimistic sentiment without a supporting increase in freight rates. We assimilated into our fleet seven of the ships that we purchased at historically attractive prices. These are enhancing our service delivery and have made a positive cash contribution even in this weak market.

Sustainable, Long-Term Strategy

We continued our concerted investment 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.

The value of long-term relationships over short-termism remains a key Pacific Basin tenet at the bottom of the market cycle as much as it is at the top, and this principle is tested in times of weak forward market pricing.

The importance of long-term relationships applies to our human, social and natural Capitals – the resources on which we rely – including our customers, our staff, the environment, the communities in which we are active, and other stakeholders. We apply sustainable thinking in our decision-making processes and the way we run our business. We aim to create long-term value through good corporate governance, accountability, strategy and risk management, and responsible social and environmental practices.

Page 8
Our Resources in Action
Our Capitals and how we create value and deliver on our strategy

Underpinning our operational strength is the endorsement and support we have earned from our customers and other stakeholders. In 2014, we were awarded the inaugural "BIMCO Shipping Company of the Year" award for our innovative customer service and solid service reliability. That is welcome recognition coming from our industry's largest association. We also received awards for safety, environmental responsibility and corporate governance, which support our view that our staff's dedication, passion and ability to deliver an excellent and safe service make Pacific Basin one of the very best companies in dry bulk shipping.

Awards in 2014

- Shipping Company of the Year
  BIMCO
- Safety Award
  International Bulk Journal
- Safety Award
  Lloyd's List Awards Global
- Best Ship Operator
  Lloyd's List Awards Asia
- Outstanding Performance in Port State Control Inspections
  Hong Kong Marine Department
- Commendation
  Carbon Footprint Repository for Listed Companies in Hong Kong
- Platinum Award for Corporate Governance, Social Responsibility and Environmental Responsibility
  The Asset

Changes to our Board

As announced during the year, Irene Waage Basili joined our Board as an Independent Non-executive Director on 1 May 2014, bringing valuable additional commercial, strategic and operational experience to our board meetings.

Chief Operating Officer Jan Rindbo resigned from the Company on 7 November 2014 to pursue new employment in his home country.

Management of our dry bulk commercial organisation remains assured by our Chief Executive Officer Mats Berglund, assisted by our Atlantic and Pacific chartering directors demonstrating our prior leadership development and succession planning.

Chanakya Kocherla relocated to Hong Kong in July 2014 to assume the new role of Chief Technical Officer to take overall responsibility for our ship management, newbuilding, marine insurance and sustainability matters.

The Board now comprises four Executive Directors and five Independent Non-executive Directors, all of whom I thank for their valuable contributions to the Board in a challenging year requiring much careful consideration and strategic decision making.

A Well-Positioned Business

At the time of writing, the Baltic Dry Index (BDI) is at its lowest since indices began in 1985 and the freight market has become dysfunctional in some regions where cargo availability is very limited – exacerbated by the lull around the lunar new year holidays in China.

This is a difficult time for everyone in the dry bulk shipping sector and we expect to see a continued weak market in 2015. Chinese economic growth is slowing and the slump in fuel prices, if prolonged, may lead to faster ship operating speeds potentially increasing global shipping supply.

I am confident, however, that we are well positioned to weather any protracted weak market and take advantage of opportunities that may arise, resulting in better returns for our shareholders when the stronger market returns. 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 support of Pacific Basin – especially in these testing times.

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News & Achievements
See more on our achievements in 2014

Page 48
Corporate Governance
See details of our Corporate Governance in action

Page 38
Corporate Social Responsibility
See our CSR Report for our sustainability performance

Key Performance Indicators

KPI

Net borrowings to NBV of property, plant & equipment	Underlying (loss)	Dividend per share
40% ↑ 6 points	US$(56)m ↓ 71m	HK¢5 → 0%

Chief Executive's Review

Outperforming in a very weak dry bulk market

Mats Berglund
Chief Executive Officer
Hong Kong, 26 February 2015

FINANCIAL RESULTS

In very difficult market conditions, we can take some satisfaction from the way our dry bulk business model and our team's hard work have enabled us to reduce our recurring cost base and achieve daily earnings that outperformed the market.

The Group produced an underlying loss of US$56 million (2013: US$16 million profit) and a net loss of US$285 million (2013: US$1.5 million profit).

Basic EPS on continuing operations was a negative HK116 cents, and our EBITDA was positive US$82 million (2013: US$118 million) reflecting our continued positive cash generation.

Our results were influenced by:

- the impact on our revenues of very low dry bulk market rates since early 2009;
- US$130 million non-cash impairments and provisions reflecting significant changes in the dry bulk and bunker fuel markets; and
- US$91 million towage-related impairment and business disposal charges.

www.pacificbasin.com
Investor Relations > News
See our announcement of 14 January 2015 for more on provisions for onerous inward charter and bunker fuel swap contracts

PERFORMANCE OVERVIEW

Dry Bulk

The dry bulk spot market fell more than 60% over the year, undermined by the supply overhang following the 2010-2012 newbuilding boom and weaker growth in demand – especially from China. The supply-demand balance is further threatened by the 50% drop in bunker fuel prices towards the year end (reflecting the global oil price decline) which resulted in early signs of increased vessel operating speeds, potentially increasing global shipping supply.

Our fleet scale and our team's ability to optimise ship and cargo combinations and maximise utilisation enabled our average Handysize daily earnings of US$9,340 per day net to outperform the market by 28%.

Our Handymax daily earnings of US$10,460 outperformed the market by a more modest 12% due mainly to low-paying positioning voyages during the first quarter.

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Business Review & Financial Statements
See more in Business Review and Group Financial Review

During the year we secured several multi-year cargo contracts with customers on both Atlantic and Pacific routes that will facilitate the triangulation and efficient utilisation of our ships.

We maintained good control of our owned vessels' operating costs which are competitive and averaged US$4,370 per day. Our first half performance was impacted by the higher cost of short-term (and now expired) inward-chartered Handymax vessels during the spike in the US Gulf market at the end of 2013. We also incurred losses on long-term chartered-in ships taken at higher rates primarily in 2010.

Towage

We made a number of announcements in 2014 relating to our towage business and these developments over the year are summarised in our PB Towage Business Review on p.29.

www.pacificbasin.com
Investor Relations > News
See our announcements of 25 June and 12 December 2014 for more on our towage impairment and disposal, and their financial effects

An important development was the agreement we reached in December to sell our harbour towage business to Smit Lamnalco. The transaction completed successfully in February 2015, resulting in a net book loss of US$9.9 million and a non-cash exchange loss of US$9.3 million. The disposal of the business as a going concern ensured that the staff and crew transferred as an integral part of the transaction and saves us the significant cost of vessel dockings scheduled for this year.

The completion of this transaction leaves Pacific Basin with a towage vessel net book value of approximately US$41.5 million. The majority of these assets are now in the Middle East and only a few remain in Australia and New Zealand where they are being marketed for sale. We have downsized our New Zealand and Australian offshore towage organisation accordingly.

RoRo

Our exit from the RoRo sector continues on schedule with two of our RoRo vessels delivered into Grimaldi's ownership in June and December. The remaining two are due to follow into Grimaldi's ownership within 2015 generating proceeds of around US$60 million.

INVESTMENT AND BALANCE SHEET

We have taken delivery of all 33 secondhand ships that we committed to purchase between late 2012 and early 2014. They have slotted into our cargo systems, are performing well and have made a positive cash contribution despite the weak market.

We currently operate 218 dry bulk ships of which 80 are owned. A further 32 newbuildings (18 owned and 14 chartered) are due to join our core fleet over the next two years.

As at 31 December 2014, we had cash and deposits of US$363 million and net borrowings of US$636 million. Our vessel capital expenditure obligations amounted to US$385 million payable in 2015 to 2017 in respect of our 18 newbuildings ordered at historically attractive prices.

These will be largely financed by the US$350 million, 12-year Japanese export credit agency ("ECA") loan we secured in April. In December, we drew down an additional US$122 million in conventional ship finance secured against 12 of our dry bulk ships on the water, which we will use to refinance existing loans that mature in the first half of 2015. We received towage sale proceeds of US$69 million in early 2015 relating to the sale of our harbour towage business and our interest in OMSA.

DRY BULK OUTLOOK

Current and medium-term global dry bulk net fleet growth has reduced to around 5% per year.

However, the market has yet to fully absorb the supply overhang. Furthermore, low fuel prices and, in turn, faster vessel operating speeds threaten to worsen oversupply.

Demand has recently been growing at around 4%, and sufficient growth continues to be threatened by the on-going Indonesian mineral exports ban, reduced Chinese coal imports, lower growth in Chinese economic and industrial development and the softer growth outlook for most developed economies (the U.S. being a notable exception). Consequently, we take a cautious view on the freight earnings outlook.

DRY BULK STRATEGY

We strive to manage our dry bulk business to deliver profitable contributions even in a weak market, and seek to safeguard the Company's strong cash position and EBITDA generation.

> Our core business remains firmly focused on the Handysize and Handymax segments and these will receive even more of our attention as our towage business scales down.

We are working hard on making our dry bulk platform even more robust. That includes initiatives to reduce our costs and grow our customer relationships which enhance our access to cargoes – in turn facilitating our continued outperformance of the market. Good control of our vessel operating expenses, efficient workflows and minimising administrative costs are especially important in these difficult times. We are implementing new ship management and accounting software to facilitate these objectives.

Page 28
Pacific Basin Dry bulk
See an analysis of our dry bulk daily vessel costs

In Handymax, we will concentrate our fleet and cargo focus on a tighter geographical range to provide a better quality service to our customers, enable better ship-cargo matching and to optimise our front and backhaul combinations to generate better vessel earnings.

While we are currently neither buying nor taking ships on long-term charters, we will continue to supplement our core fleet with low-rate short-term chartered ships, which contribute to our service and our results even in the depressed market.

However, this difficult market will present acquisition and chartering opportunities for companies able to access capital.

We remain satisfied with the 51 ships (33 secondhand and 18 newbuildings) we acquired from late 2012 to early 2014, more than doubling our owned fleet and enhancing our competitive cost base. All are well suited to our cargo systems, and will leverage the market recovery when it comes.

We thank our shareholders for their patience during these poor market conditions.

Our Resources In Action

We attach great importance to cultivating resources and relationships – our stores of value or Capitals – which we employ as optimally as we can to propel us towards our vision and create value for our shareholders and customers.

Our Capitals – the resources and relationships we rely on

Physical Capital

Our Fleet – 273 Ships*

		Vessels in operation	Newbuildings on order	Total
Dry Bulk	Handysize	157	24	181
Dry Bulk	Handymax	59	8	67
Dry Bulk	Post Panamax	2	–	2
Towage	Tugs & Barges	23	–	23

www.pacificbasin.com
About Us > Fleet
Full PB fleet breakdown

Financial Capital

The pool of funds that is:

- Generated through operations and obtained through debt, convertible bonds and equity
- Managed as cash, lending facilities and other resources controlled by the Group

Human Capital

- Optimal combination of people, competencies, capabilities, experience

Our Global Office Network

13 dry bulk offices

11 chartering offices – positioning us close to our customers

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Understanding Our Core Markets
Our world map

Social Capital and Relationship Capital

Relationships within and between our communities, groups of stakeholders and other networks

- Partner-customers
- Suppliers
- Regulators and policy makers
- Local communities

Natural Capital

- The environmental resources (such as air, water, minerals and energy) that support the prosperity of our business

Intellectual Capital

- Accumulation of knowledge and development of processes and procedures, through experience and a culture of education and continuous improvement

Our Vision

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

Our Mission

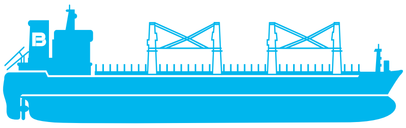
To achieve our vision by continuously improving our standards of service and conduct

* as at 31 January 2015, excluding 2 RoRo ships

How we create value	Outcome
Scale and Interchangeability Fleet scale provides network and economic advantages	Optimal scheduling and flexibility for customers Increased economies of scale and vessel utilisation — Environment p42
High-quality Assets Expansion and renewal of our fleet through focused investment	Optimal operational ship design and efficiency — Environment p42 Enhanced technical reliability for customers
In-house Technical Operations Integrated team of technical services and crewing managers	Enhanced service reliability to customers Enhanced health and safety, quality and cost control — Workplace p40
Considered Treasury Activity Continuous management of financial resources and funding	Sound financial liquidity to fund investments and meet payment obligations and covenants Optimal balance of financial capital sources benefits shareholders and enhances returns
Investment in Staff Attracting talent, staff training, graduate traineeships, employee engagement and succession planning	Safeguarding and enhancing quality, effectiveness and availability of our teams of staff on shore and at sea — Workplace p40
Being Local Regional offices across six continents position us near our customers	Meaningful customer partnerships and better understanding of and response to customer needs
Being Global Worldwide network of offices and trade routes	Access to comprehensive market intelligence and cargo opportunities Optimal trading (cargo combinations) and positioning of our fleet — Environment p42
Stakeholder Engagement Regular multi-level engagement and responsible operating practices to broaden and deepen our relationships with stakeholders	Builds understanding, trust and support between Pacific Basin and our customers, tonnage providers, suppliers, investors, financiers, communities and other stakeholders
Environmental Responsibility Observing or exceeding regulatory requirements and industry standards on environmental impact	Sector-leading efforts to minimise consumption of natural resources and impact on the environment — Environment p42
Effective Business Model & Systems Home-grown value-accretive business model, systems, procedures, know-how and intangibles	Sector-leading service delivery Maximising vessel earnings and generating consistently respectable financial performance through the cycle Strong brand and reputation — Community p44

Understanding Our Core Market

THE DRY BULK SECTOR



Bulk Carriers for dry bulk commodities

OTHER MAINSTREAM SHIPPING SECTORS

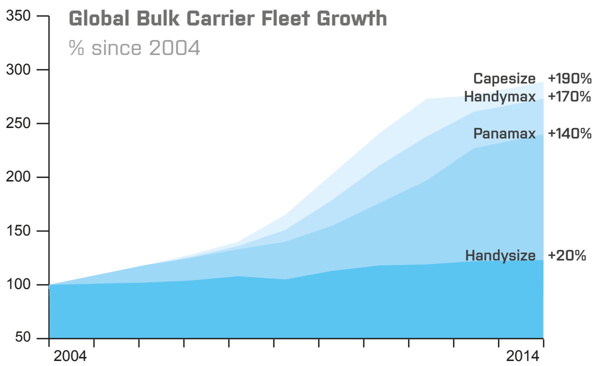
Containerships for containerised goods

Tankers for oil, gas & chemicals

	Bulk Carrier Ship Types	Percentage of Global Dry Bulk Capacity	Versatility	Main Commodities Carried
Major bulks without cranes	**Capesize** 120,000+ dwt	40%	Less Versatile	**Major Bulks** • Iron ore • Coal • Grains
	Panamax & Post-Panamax 65,000-120,000 dwt	28%		
Our Focus: **Minor bulks** with cranes	**Handymax** 40,000-65,000 dwt	22%	More Versatile	**Minor Bulks** • Logs & Forest Products • Agriculture Products • Fertiliser • Cement & Cement Clinker • Bauxite • Alumina • Ores • Steel & Scrap • Concentrates • Salt • Coal/Coke • Petcoke • Sugar • Other Bulks
	Handysize 25,000-40,000 dwt	10%		

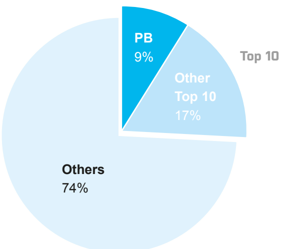
Few ports, few customers, few cargo types, low scope for triangulation ← → Many ports, many customers, many cargo types, high scope for triangulation

WHY WE FOCUS ON MINOR BULKS



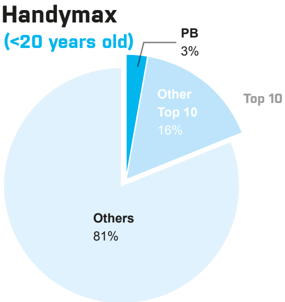
OUR MARKET SHARE

Handysize
(<20 years old)



We operate approximately 9% of global 25-40,000 dwt Handysize ships of less than 20 years old

Handymax
(<20 years old)



We operate approximately 3% of global 50-65,000 dwt Handymax ships of less than 20 years old

We are the world's largest Handysize owner and operator (with a significant presence also in Handymax) in a highly fragmented market that revolves around the carriage of minor bulks.

Minor bulk commodities are very varied, controlled by a large number of customers and transported via a large number of ports globally. This segment requires highly versatile self-loading and discharging ("geared") ships of "handy" proportions to allow them access to the many ports around the world restricted by shallow water, locks, narrow channels and river bends. By contrast, cargo demand for large bulk carriers comprises only a few commodities controlled by a handful of cargo owners and transported through a much smaller number of ports making their prospects more volatile.

So while we are focused on a very particular ship segment and size, we are diversified geographically and in terms of customers and cargoes. This allows us scope to triangulate our voyages and thus enhance our utilisation and vessel earnings. And while we may not participate in the volatile freight earnings that large bulk carriers can achieve, we are well positioned to achieve our important aim of generating a steadier and more sustainable earnings stream with better protected earnings in the down-cycle.

Our earnings reliability is further enhanced by the fact that global Handysize capacity has experienced only 20% growth in the past 10 years relative to the much larger expansion of the major bulk fleets.

Source: Pacific Basin, Clarksons

Pages 22-23
Dry Bulk Market Review 2014
Read about the freight market and demand and supply developments in 2014

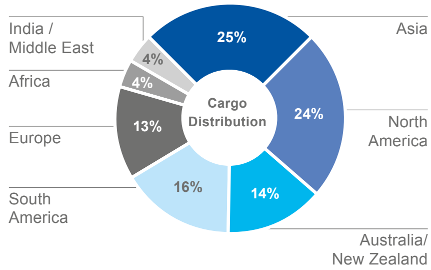
OUR WORLDWIDE NETWORK AND TRADING AREAS

Our Worldwide Network

13 dry bulk offices – including:

11 commercial offices

3 technical & crewing offices



A FOCUSED APPROACH – OFFERING BENEFITS OF DIVERSIFICATION

Focused on segment and size

Diversified geographically, customer-wise and cargo-wise

- Over 400 customers globally
- Our largest customer represents only 4%
- Top 25 customers represent less than 40%

Our Dry Bulk Cargo Volumes in 2014

Energy

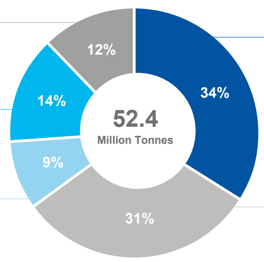
Coal	5%
Petcoke	6%
Wood Pellets	1%

Metals

Alumina	3%
Ores	5%
Concentrates & Other Metals	6%

Minerals

Salt	5%
Sand & Gypsum	3%
Soda Ash	1%



Agricultural Products and Related

Grains & Agriculture Products	20%
Fertiliser	11%
Sugar	3%

Construction Materials

Logs & Forest Products	15%
Steel & Scrap	9%
Cement & Cement Clinker	7%

OPPORTUNITIES AND CHALLENGES

Slower growth in global minor bulks trade
Minor bulks transportation demand will be affected by slower Chinese growth but healthy recovery in the USA

Moderating supply growth
Fewer newbuilding orders and increased ship scrapping are expected to moderate net fleet growth in the medium term

Fragmented market
Handysize sector remains highly fragmented and we continue to maintain a significant market share

Market cycles and volatility
Our business model, know-how and understanding of shipping cycles enable us to outperform throughout the cycle, manage our balance sheet, stay strong and reliable, and expand and renew our fleet at cyclical low prices

Environmental considerations and regulation
Our drive for fuel efficiency ensures that emissions concerns are aligned with our strategy, and our award-winning in-house technical operation ensures we meet all regulatory requirements and industry best practices

Limited supply of seafarers and shore-based talent
Our growth is challenged by a short supply of seafarers and shipping executives, but the strength of our employer brand, industry network and personnel function allows us to attract and retain the staff we need

Handysize 1-Year Charter Rates

* US$ freight rates are net of 5% of commission

Source: Clarksons

Our Strategy

Our dry bulk strategic model leverages four broad characteristics designed to drive business growth and sustainable value creation for our shareholders and customers over the long term

Strategic Model

Our Large Versatile Fleet

Fleet scale and interchangeable high-quality dry bulk ships facilitate service flexibility to customers, optimised scheduling and maximised vessel utilisation

In-house technical operations facilitate enhanced health & safety, quality and cost control, and enhanced service reliability and seamless, integrated service and support to customers

Our Strong Corporate & Financial Profile

Striving for best-in-class internal and external reporting, transparency and corporate stewardship

Robust balance sheet through conservative financial structure sets us apart as a preferred counterparty

Well positioned to deploy capital through selective investment in our core market when conditions are right

Responsible observance of stakeholder interests and our commitment to good corporate governance and CSR

Our Market-Leading Customer Focus & Service

Priority to build and sustain long-term customer relationships

Solution-driven approach ensures accessibility, responsiveness and flexibility towards customers

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

Our Comprehensive Global Office Network

Integrated international service enhanced by commercial and technical offices around the world

Being local facilitates clear understanding of and response to customers' needs and first-rate personalised service

Being global facilitates comprehensive market intelligence and cargo opportunities, and optimal trading and positioning of our fleet

Delivering Our Strategy – The Key Matters We Focus On

Our integrated approach to running our business and how we report on it requires us to assess all the matters that are material to the long-term success of Pacific Basin and the sustainable growth of its business and operations. This exercise – an analysis of opportunities and risks and how to balance them – also assists us in developing our strategic objectives.

Sustainability is a key element of each of these material matters, and this is the driving force behind our growth and long-term success.

What is material is defined as a matter that would impact our senior management, Board and Board Committees' decisions, applying several criteria such as:

- the potential economic impact of a matter on the business and its ability to create value over the short, medium and long term;
- our main stakeholders' concern with a matter and its likely effect on them; and
- the extent to which a matter is likely to grow in significance and impact in the future.

Through this process, six material matters were identified, all of which are key components of our business model (how we employ our Capitals to create value) and key strategic issues driving the performance and long-term viability of the Group.

Matters of Key Strategic Focus – What We're Doing to Deliver Our Strategy

1. Investing in our fleet
2. Deepening our relationships
3. Investing in our people
4. Safeguarding health, safety & environment
5. Enhancing corporate & financial profile
6. Evolving management & governance practices

Pages 14-19
Strategy Delivery & Risks
The following six pages summarise (i) how we did in delivering our strategic objectives for 2014, (ii) what our objectives are for 2015, and (iii) what risk reduction measures we take to prevent our strategies and objectives from being thrown off course

Page 53
Risk Management & Internal Controls
The framework for how we identify and evaluate the Group's risks and formulate appropriate mitigating controls

Strategy Delivery & Risks

1. Investing in our fleet

2014

OBJECTIVES

Further expansion of our dry bulk fleet on a selective basis, albeit at a slower pace.

STRATEGY DELIVERY AND PERFORMANCE

We stopped buying ships in early 2014 as prices increased without a supporting increase in freight rates.

We assimilated into our fleet seven of the ships we purchased at historically low prices and have taken delivery of all 33 secondhand ships that we committed to purchase between late 2012 and early 2014. They have slotted into our cargo systems well, and have made a positive cash contribution even in the weak market.

2015

OBJECTIVES

We are currently neither buying nor taking ships on long-term charters, but will continue to supplement our core fleet with low-rate short-term chartered ships which contribute to our service and results even in the depressed market. The difficult market will present acquisition opportunities for companies able to access capital.

We will focus on good control of our vessel operating expenses, efficient workflows and minimising administrative costs, and are implementing new ship management and accounting software to facilitate these objectives.

RISK/IMPACT	RISK REDUCTION MEASURES
VESSEL INVESTMENT, DEPLOYMENT AND OPERATIONAL RISK Inappropriate vessel investment timing, deployment and operations may lead to an uncompetitive cost structure and reduced margins. Vessel values vary significantly through shipping cycles, and we need competitively priced, high-quality vessels to provide our services to customers. **Change from last year:** →	We evaluate potential vessel investments and divestments based on relevant market information, estimated future earnings and residual values. We adopt a flexible ownership/leasing strategy that is aligned with shipping cycles, and we maintain an active fleet renewal programme by: • securing newbuilding contracts with leading, reputable and financially viable shipbuilders; • transacting secondhand deals with creditworthy counterparties; and • securing long-term inward charters of modern vessels. Our technical team and crews operate and maintain our ships under our ISM Code-compliant “Pacific Basin Management System” to assure safety and service reliability.
MARKET RISK (A) Adverse financial impacts include: • dry bulk and towage vessel earnings volatility • cost volatility including fuel prices, interest rates and other operating expenses • exchange rate volatility in the currencies we use **Change from last year:** ↑	Earnings volatility is managed by securing contracts of affreightment of one year or longer for our dry bulk business and long-term charter contracts for our offshore project towage business, which are our main sources of earnings. Cost volatility of fuel prices on our long-term contracts are passed through to our customers through bunker price adjustment clauses or hedged with bunker swap contracts. Page 94 Financial Statements Note 14 See Derivative Assets and Liabilities for our use of derivative financial instruments to manage volatility in freight rates, fuel prices, interest rates and exchange rates.
HARDWARE & SYSTEMS RISK Unreliable hardware and systems could result in communications breakdown, vessel down-time and service disruption. **Change from last year:** →	Our IT team works closely with the business departments to enhance its understanding of our business needs so it can tailor effective IT systems, support, and preventive and contingency measures. Our IT Steering Committee chaired by our CEO oversees the Group’s IT policies and procedures and ensures the Group’s IT strategies meet our business needs. Vessel hardware and systems are reviewed and upgraded periodically to maximise system efficiency and security.

2. Deepening our relationships

2014

OBJECTIVES

Continue to grow our dry bulk customer and cargo portfolio and enhance customer experience, drawing on our expanding commercial teams and office network.

STRATEGY DELIVERY AND PERFORMANCE

Serving over 400 customers and growing our cargo volumes to 52 million tonnes to generate full-time employment for our 78,620 ship revenue days (2013: 73,210). We expanded our network to 11 commercial offices to position us close to customers enabling deeper partnerships.

2015

OBJECTIVES

To further improve the customer experience to enhance our access to cargoes, drawing on a global team and office network that is unmatched in the dry bulk sector.

RISK/IMPACT	RISK REDUCTION MEASURES
CUSTOMER SATISFACTION AND REPUTATION RISK Poor service can lead to loss of customers. Impaired brand value and reputation as a trusted counterparty could restrict our access to customers, cargoes, high-quality vessels, funding and talent. **Change from last year:** →	Our global office network positions us close to our customers enabling frequent customer engagement, a clear understanding of their needs and localised customer service. A large, modern, uniform fleet and comprehensive in-house technical operations enhance our ability to deliver a high-quality and reliable service. Customer engagement includes regular customer surveys to see how we can further improve customer satisfaction.
BANKING RELATIONSHIPS RISK Poor relationships with banks may limit our funding sources. **Change from last year:** →	We have a dedicated treasury function that develops and maintains our relationships with a diverse group of reputable banks worldwide. These relationships are enhanced through regular senior management contact and consistent compliance with our loan obligations.
CREDIT AND COUNTERPARTY RISK Ⓐ Default or failure of counterparties to honour their contractual obligations may cause financial losses. Counterparties include: • dry bulk and towage customers • ship builders, sellers and buyers • derivatives counterparties • banks and financial institutions **Change from last year:** ↑	Our global office network enables us to better know our counterparties. We take measures to limit our credit exposure by: • transacting with a diverse range of counterparties with successful track records and sound credit ratings; • actively assessing the creditworthiness of counterparties; and • obtaining refund guarantees from newbuilding shipyards. Page 99 Financial Statements Note 15 Trade and Other Receivables

3. Investing in our people

2014

OBJECTIVES

Continue to expand, train and motivate our teams in tandem with growth of our fleet on the water.

STRATEGY DELIVERY AND PERFORMANCE

Despite increasing global demand for seafarers and ship managers, we recruited more ships' crews and shore-based ship management staff in early 2014 in preparation for the delivery of more owned ships into our dry bulk fleet. After the sale of our harbour towage business, we now have 3,000 seafarers and 340 shore-based staff.

We recruited 13 fleet management staff and 11 dry bulk graduate trainees, expanded our 360° feedback programme, hosted five officer training seminars ashore, launched a leadership development programme for our staff at sea, and increased the number of training superintendents we deploy across our fleet from six to eight. These contributed to enhanced employee engagement and satisfaction.

2015

OBJECTIVES

Continue to develop and motivate our teams to enhance safety, productivity, customer satisfaction and job fulfilment.

RISK/IMPACT

EMPLOYEE ENGAGEMENT RISK

We are only as good as our people and so our ability to achieve our vision depends on the effectiveness of our staff both ashore and at sea. Loss of key staff or an inability to attract, train or retain staff could affect our ability to grow our business and achieve our long-term goals.

Change from last year: ↑

RISK REDUCTION MEASURES

Our Group HR and crewing departments are tasked with recruiting, developing and maximising engagement of staff ashore and at sea by:

- maintaining regular contact with talent representing a wide cross-section of the shipping industry, and we use diversified manning sources for seafarers;
- regularly reviewing our salary structure to ensure that it remains adequate to attract and retain the best talent;
- offering regular training for staff ashore and at sea; and
- implementing annual staff performance appraisals, incentives and other initiatives to encourage, retain and otherwise engage staff. This includes a 360 degree feedback process for certain executive directors and senior staff to further promote professional and personal development.

Page 41
Workplace
Recruitment, Training & Development

SUCCESSION RISK

Inadequate succession planning could lead to prolonged executive searches, disruption to our strategic momentum and the business, and undermine stakeholder confidence in the Group.

Change from last year: →

Our Group has a dedicated HR department which oversees organisational design, talent management, hiring and remuneration. Succession plans for senior management are regularly reviewed.

The Nomination Committee closely monitors the Board succession planning process to ensure Board continuity and diversity. We have a clear vision, mission and business principles with which to equip any potential successors to lead the business forward.

4. Safeguarding health, safety and environment

2014

OBJECTIVES

Focus on efforts to substantially eliminate injury, navigation and pollution incidents, minimise our environmental impact and promote a healthy and supportive work environment at sea and ashore.

STRATEGY DELIVERY AND PERFORMANCE

We reduced our lost time injury frequency by another 31% and our inspection deficiency rate decreased 13% in 2014. This industry-leading performance was marred by one fatality resulting from a fall suffered by a crew member when engaged in a routine work on deck (see. p.41 for health and safety commentary). The expansion of our owned fleet in 2014 presented us with the challenge of training many new crew in our operational and safety practices.

2015

OBJECTIVES

Through a continued focus on training, to substantially eliminate injury, navigation and pollution incidents, minimise our environmental impact and promote a healthy and supportive work environment at sea and ashore.

RISK/IMPACT

RISK REDUCTION MEASURES

SAFETY RISK

Inadequate safety and operational standards, piracy and other causes of accidents may lead to loss of life, severe damage to property and our vessels, and impact the Group's reputation among seafarers, customers and other stakeholders.

Change from last year:

Our commitment to the safe operation of our ships is manifested through a proactive system ashore and at sea – the Pacific Basin Management System – enhanced by well-conceived training and maintenance programmes and innovative initiatives to ensure our vessels are in good condition and in all respects safe to trade.

The high quality of our attention to safety is evidenced by an excellent safety record and our several safety-related awards in recent years.

Page 41
Workplace
Health & Safety

ENVIRONMENT RISK

Non-compliance with environmental emissions and standards may result in financial loss and significant damage to our brand and the long-term sustainability of our business.

Change from last year:

We are at the forefront of efforts in our sector to mitigate emissions through initiatives to improve engine performance and hull and propulsion hydrodynamics, and to adopt fuel-efficient operational measures such as our home-grown Right Speed Programme.

Commercial pressure to increase vessel speed as the market recovers may increase our emissions but with no change in risk to our compliance status and financial performance.

We promote a proactive safety culture across our fleet involving safety risk assessments to mitigate risk in critical tasks on board. Through our safety training, we seek to eradicate the risk of accidents that lead to pollution and related penalties, costs and adverse publicity. In addition, we cover our risk of liability for pollution through membership of reputable Protection & Indemnity (P&I) clubs.

Page 42
Environment

INSURANCE RISK

Any vessel incident could endanger our crew, adversely affect the strength of our brand and reputation and result in service disruption and significant costs.

Change from last year:

Despite best efforts to ensure safe operations, incidents do happen. We therefore place insurance cover at competitive rates through marine insurance products, including hull and machinery, war risk, protection and indemnity, freight demurrage and defense cover. Sufficiency of insurance cover is regularly evaluated and adjusted in line with prevailing asset values and in compliance with loan covenants and internal policies.

5. Enhancing corporate & financial profile

2014

OBJECTIVES

Work within our financial gearing targets, maintain the financial health of the Group, and strive for best-in-class reporting, transparency and corporate stewardship.

STRATEGY DELIVERY AND PERFORMANCE

Despite significant recent investment in our fleet, we still benefit from conservative gearing and access to attractive financing leaving us with a healthy balance sheet. This financial health gives comfort to customers and shareholders alike which contributes to the strong corporate profile that makes Pacific Basin a preferred partner for many stakeholders.

We accessed attractive Japanese export credit and bank loans despite one of the weakest markets since 1985 in which the availability of debt finance to the shipping industry has been challenging.

2015

OBJECTIVES

Continue to work within our financial gearing targets, maintain the financial health of the Group, and strive for best-in-class reporting, transparency and corporate stewardship.

RISK/IMPACT

LIQUIDITY RISK

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

Change from last year:

RISK REDUCTION MEASURES

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

- sufficient funds are available to meet our existing and future commitments;
- compliance with covenants relating to bank loans, finance leases and convertible bonds;
- an appropriate level of liquid investment is maintained during different stages of the shipping cycle; and
- the Treasury policy is reviewed and in line with business requirements.

Page 116
Financial Statements Note 33
Financial Liabilities Summary

CAPITAL MANAGEMENT RISK

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

Change from last year:

We conduct regular reviews to ensure an optimal capital structure taking into account:

- future capital requirements and capital efficiency;
- prevailing and projected profitability;
- projected operating cash flows; and
- projected capital expenditure and expectations for strategic investment opportunities.

Our dividend policy is to distribute regular dividends to shareholders and to pay out a minimum of 50% of eligible profits for the year, with the remainder of the profits retained as capital for future use.

Our Board of Directors monitors closely the ratio of net borrowings to net book value of property, plant and equipment, and the ratio of net borrowings to shareholders' equity.

Page 3
Financial Summary

6. Evolving management & governance practices

2014

OBJECTIVES

Refine management decision-making, risk mitigation and board governance procedures and considerations. Ensure all new recruits are trained to fully observe our risk management and governance procedures. Uphold best-in-class levels of transparency and stakeholder confidence.

STRATEGY DELIVERY AND PERFORMANCE

We emphasised our governance initiatives by formalising the role of Director of Risk. The internal audit function assisted communication of risk awareness and identified areas for improved controls. The Group complied with all relevant requirements under HK Listing Rules and Securities and Futures Ordinance. The Corporate Governance work has been recognised through various external awards.

Page 68
News & Achievements
Our awards in 2014

2015

OBJECTIVES

Refine management decision-making, risk mitigation and board governance procedures and considerations. Ensure new recruits are trained to fully observe our risk management and governance procedures. Uphold best-in-class levels of transparency and stakeholder confidence.

RISK/IMPACT

CORPORATE GOVERNANCE RISK

Inadequate corporate governance measures may adversely impact the diligence, integrity and transparency of our risk assessment, decision-making and reporting processes and undermine stakeholder confidence.

Change from last year:

RISK REDUCTION MEASURES

Our Group is committed to good corporate governance to meet the needs and requirements of the business and its stakeholders. The Audit Committee and the Risk Management Committee proactively ensure the overall corporate governance and risk management framework for the Group.

The Board and relevant employees receive regular training on corporate governance matters to ensure a high standard of corporate governance.

Page 48
Corporate Governance

INVESTOR RELATIONS RISK

An ineffective investor relations function or inadequate transparency in our external communications could undermine stakeholder confidence in our Group.

Change from last year:

We have a dedicated investor relations function as well as policies and guidelines on information disclosure and communication with the public.

We report half-yearly with quarterly trading updates, we keep the public informed of material developments guided by Corporate Governance Code best practices, and our website is updated regularly with company news and financial information.

Page 65
Investor Relations

To Partner
To Deliver

Our business is people driven, and our success hinges on the strength and quality of our relationship with customers, suppliers and other business partners.

We blend an effective cargo and customer-focused dry bulk business model with talented, team-focused people who share a sensible set of business values and a passion for delivering excellent service.

Our People

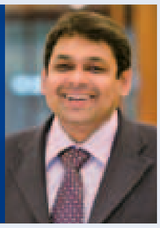
21
THOMAS HALLETT
General Manager, Stamford

21
CAPT WANG LIN
Master, "Imabari Logger"

36
KT SO
Accounting Manager

36
EMILY LAU
Corporate Communications & Investor Relations Manager

37
UTTAM KUMAR JAISWAL
General Manager, Marine



37
SERGE ZELLER
Assistant Bunker Manager, Atlantic

What We Stand For

What matters to us most is:

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

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

We believe that the core sentiment of these stories is encompassed in our theme for 2014 – "To Partner, To Deliver" – and that the promise of the Pacific Basin brand is summed up in our tagline:

With you for the long haul

Our People

Thomas Hallett

General Manager, Stamford

Our office in Stamford was established in 2011 to secure a firm foothold in the US market. The office has since grown from a two-man operation to a staff of ten, which is testament to just how busy we have become on the US East Coast. In terms of volumes, we have become one of the Company's busiest offices with our operations colleagues each handling about 15 ships at a time. This rate of growth is due in part to the accessibility and close relationship that our Stamford platform offers to our American customers who are able to contact us at any time day or night.

Our office has a large and varied customer base, and we strive to make each and every customer feel important. We do this through regular customer visits and by assigning individual ship operators to work exclusively with particular customers. We also endeavour to provide prompt and effective assistance whenever requests arise.

We strive to offer our customers the best service with a focus on punctuality and we always try to accommodate requests for flexibility, which we are often able to do on account of our large fleet and global coverage. We go to every one of our customers with the same proactive and honest approach, looking for ways to start, build and maintain long-term business partnerships. Our goal is to be our customers' carrier of choice.

Tom joined Pacific Basin as a trainee in 2005 and spent three years in Hong Kong and four years in London before relocating in 2013 to Stamford. Tom was in Operations for three years before switching to Chartering, and he has been General Manager of our Stamford office since March 2014.

Capt Wang Lin

Master of Handysize bulk carrier "Imabari Logger"

I joined the Pacific Basin fleet in 2007. Looking back, it has been a successful and fulfilling seven years, both for me and for all Pacific Basin ships' crews. Pacific Basin's unique training system – supported by external check bulletins, experience feedback, leadership and teamwork coaching and other home-grown concepts – have broadened our vision, enriched our knowledge and enhanced our professionalism.

I am sure I speak for all Pacific Basin staff at sea in saying I appreciate that the Company remains as supportive as ever to its ships' crews – in fact more than ever – even in the recent poor freight market. This is demonstrated by the seamless and best 24/7 support that we seafarers enjoy from the Company's shore-based technical team.

As a Pacific Basin Captain sailing all over the world, one corporate value in particular is engraved on my mind: we are all Pacific Basin corporate ambassadors – each of us embodies the Company's values and strives for excellence through dedication, continuous improvement and teamwork. I see this in everyone I serve with, and this drives our productivity and performance across the fleet.

I am proud to represent Pacific Basin around the globe, and I strive to achieve a few core goals: the high-quality maintenance and safe running of my ship – every day – and the sound management of my ship's business in port. Through these goals, my team and I seek to deliver the best service to the Company and its customers.

Wang Lin joined the Pacific Basin fleet as Second Officer in 2007 and was promoted to Captain in 2013. He is an excellent ship's captain worthy of the command of one of our newest ships of the latest and best design for our trades.

Business Review

Dry Bulk Market Review 2014

Freight Market Summary

Reversing developments of the previous year, the freight market trended sharply down in 2014 as characterised by a 63% fall in the Baltic Dry Index (BDI) over the year.

Handysize spot market rates averaged US$7,300 per day net, representing a 6% decline year on year, having started 2014 at US$10,530, fallen to a low of US$5,070 in July and finished the year at US$6,960.

This weak freight market was driven by continued global oversupply generated by the newbuilding deliveries of 2010 to 2012, compounded by regional demand-side weaknesses (see “key demand developments” below).

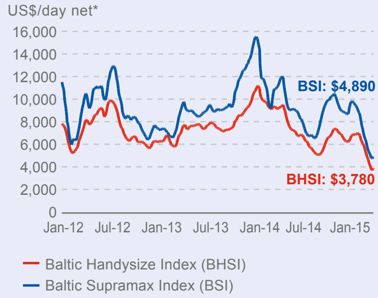
The unexpected decline in the second quarter was led by a collapse in Atlantic rates following the repositioning of more ships than usual into the Atlantic for the South American grain season. Bearish conditions prevailed until July. Improvement in the fourth quarter was less pronounced and more short-lived than the seasonal strengthening that is typical at the year end.

Conditions have remained very bearish at the start of 2015 and, in February, the BDI fell to its lowest since indices began in 1985. Newbuilding deliveries deferred from 2014 have coincided with a seasonal demand slow down due to the lunar new year holidays in China and weather-related cargo disruptions in key trade areas.

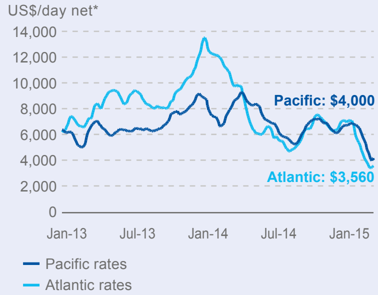
-6% US$7,300 net
Handysize 2014 average market spot rate

-4% US$9,330 net
Handymax 2014 average market spot rate

Baltic Handysize Index (BHSI) & Baltic Supramax Index (BSI)



Pacific vs Atlantic Handysize Rates



* US$ freight rates are net of 5% commission
Source: The Baltic Exchange, data as at 23 Feb 2015

FREIGHT MARKET & OUTLOOK IMPACT SHIP VALUES

SUPPLY DRIVERS

Key Supply Developments

The market remained weighed down by the continued oversupply of larger dry bulk ships despite reduced net fleet growth in 2014.

The global fleet of 25,000-40,000 dwt Handysize ships grew 2.7% net in 2014 driven by 6.8% newbuilding deliveries and 4.4% scrapping. This segment of the dry bulk fleet saw a lower rate of deliveries than all other dry bulk segments in 2014.

The overall dry bulk fleet grew 4.4% net – the lowest level in over 10 years.

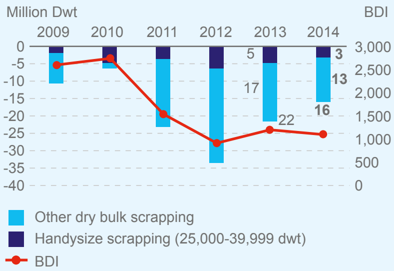
A reduction in port congestion in South America released capacity into the Atlantic in the second and third quarters.

Widespread slow steaming had continued to curtail effective dry bulk shipping capacity, but the dramatic drop in crude oil and fuel prices during the last quarter resulted in early signs of increased vessel operating speeds thereby potentially increasing global shipping supply.

+2.7%
Global Handysize capacity

+4.4%
Overall dry bulk capacity

Dry Bulk Scrapping versus BDI



Source: Clarksons, Bloomberg, as at 1 Jan 2015

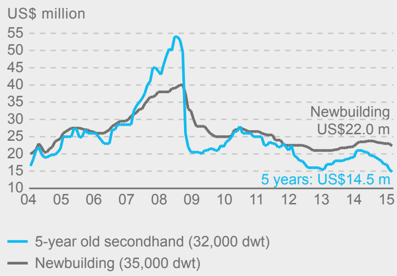
Ship Values

Ship values started strong but declined over the year influenced by the weakening freight market and, in the fourth quarter, the effect of the weakening Japanese Yen allowing Japanese sellers to accept lower US Dollar prices. Clarksons currently value their benchmark five year old Handysize at US$14.5 million - a level last seen in 2003.

Handysize newbuilding prices remained relatively flat over the year and currently stand at US$22 million.

-34% US$14.5m
Secondhand Handysize

Handysize Vessel Values



Source: Clarksons, data as at 20 Feb 2015

VALUES & OUTLOOK IMPACT NEW SHIP ORDERING

Key Demand Developments

Dry bulk demand in 2014 is estimated by R.S. Platou to have increased by 4.1% year on year, weighed down by particularly disappointing second half cargo volumes into China.

Chinese coal imports declined 11% by 36 million tonnes due to slower economic growth, increased use of hydro-electric power and China's actions to protect its domestic coal industry at the expense of imports. Conversely, coal imports into India grew by 26 million tonnes – not enough to balance China's reduction.

The Indonesian ban on bauxite and nickel ore exports impacted global minor bulk trades throughout the year. China replaced some imports of these two commodities from other countries, but the overall impact on dry bulk demand was negative.

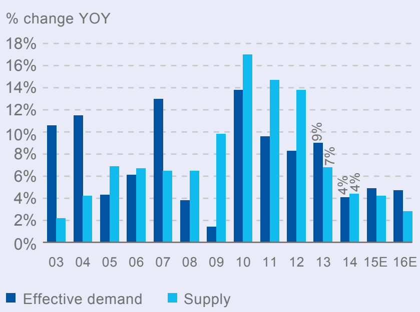
Chinese imports of iron ore grew by a healthy 14% or 113 million tonnes, particularly out of Australia where mining capacity had been increased, taking away market share from Brazilian miners. This resulted in a shorter average sailing distance thereby impacting tonne-mile demand for large bulk carriers.

Other Chinese dry bulk imports increased, although insufficiently to counter balance the above negative factors.

Overall dry bulk demand

+4.1% ↑

Dry Bulk Supply & Demand



Source: R.S. Platou, Clarksons

Chinese imports – major bulks

+14%	↑	Iron Ore
- 11%	↓	Coal

Chinese imports – minor bulks

+13%	↑	Soya Bean
+14%	↑	Logs
- 49%	↓	Bauxite
- 33%	↓	Nickel Ore

2014 Chinese Minor Bulk Imports

Chinese imports of 7 minor bulks including Logs, Soyabean, Fertilizer, Bauxite, Nickel, Copper Concentrates & Manganese Ore

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

Source: Bloomberg

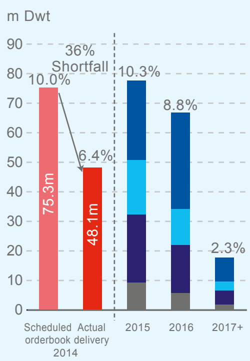
Orderbook

The Handysize orderbook currently stands at 23% and the overall dry bulk orderbook stands at 21%. This size of orderbook remains an obstacle to restoring a healthier supply/demand balance in the freight market.

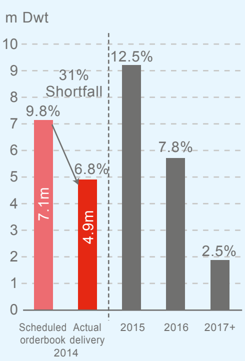
New ship orders placed (representing 8% of the fleet) decreased steadily during 2014 to the lowest levels since 2001.

The majority of dry bulk capacity on order is from Chinese shipyards, and we expect current market pressures to result in actual deliveries falling well short of scheduled deliveries.

Orderbook by Year

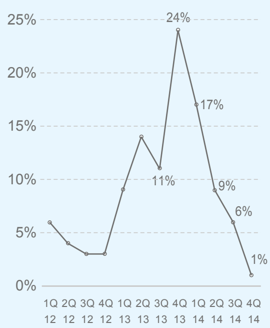


Handysize Orderbook



Dry Bulk New Ship Ordering

Per quarter annualised as % of fleet dwt capacity



Source: Clarksons, data as at 1 Feb 2015

	Orderbook as % of existing fleet	Average age	Over 25 years old	Scrapping as % of existing fleet on 1 January 2015
Handysize (25,000 – 39,999 dwt)	23%	10	12%	4%
Handymax (40,000 – 64,999 dwt)	26%	9	4%	2%
Panamax & Post-Panamax (65,000 – 119,999 dwt)	16%	8	3%	2%
Capesize (120,000+ dwt)	23%	8	2%	1%
Total Dry Bulk (10,000+ dwt)	21%	9	4%	2%

Pacific Basin Dry Bulk
Our Performance in 2014

Our Pacific Basin Dry Bulk business generated a net loss of US$30.0 million (2013: US$26.1 million profit) and a positive EBITDA of US$94.0 million.

This disappointing performance reflects the impact of weak dry bulk spot market rates, which fell more than 60% over the year. Additionally the Group's consolidated results were affected by non-cash accounting charges and provisions of US$130 million comprising:

- a non-cash provision of US$101 million for inward chartered vessel contracts taken at higher rates primarily in 2010; and
- a non-cash unrealised derivative charge of US$29 million relating mainly to the fair value change of bunker fuel hedges following a more than 50% drop in fuel prices.

Our positive EBITDA in this challenging market was driven by our ability to generate daily earnings that outperformed the market and our continued good control of our owned vessel operating costs.

Dry Bulk net (loss)
US$(30)m

Dry Bulk EBITDA
US$94m

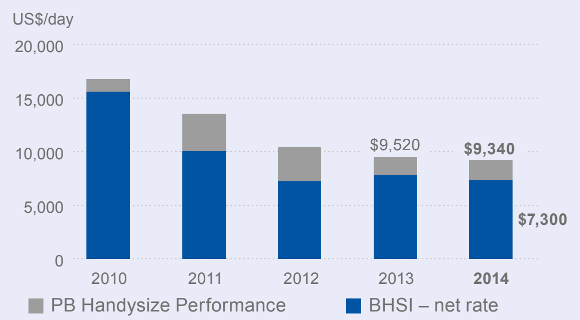
Key Performance Indicators

KPI

Performance vs Market

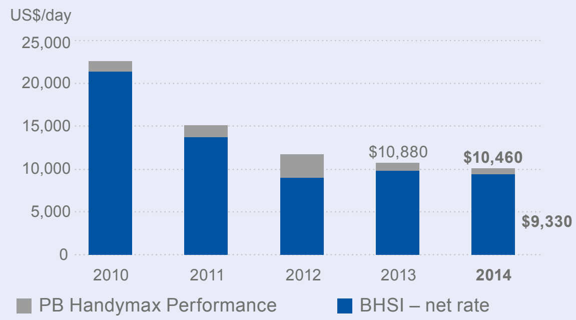
Handysize

28% outperformance compared to market



Handymax

12% outperformance compared to market



- Our outperformance compared to spot market indices reflects the value of our business model, fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes

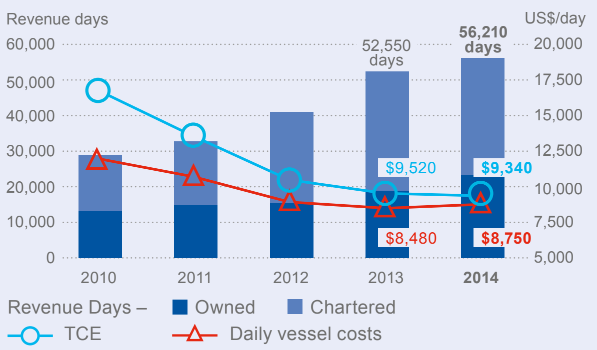
KPI

Profitability

Page 28
Analysis of Daily Vessel Costs

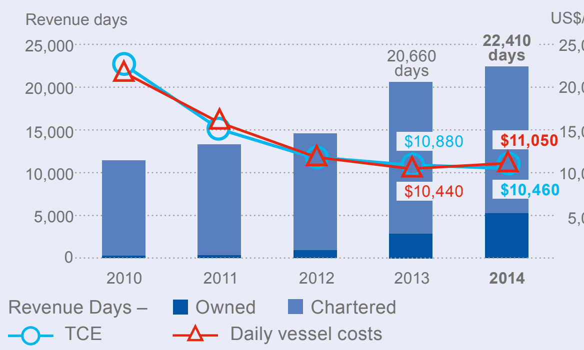
Handysize

US$28.5m ↓45%



Handymax

US$(14.8)m ↓274%



- In difficult market conditions, we generated Handysize daily earnings of US$9,340 and daily costs of US$8,750 on 56,210 revenue days
- We operated an average of 155 Handysize and 62 Handymax ships resulting in 7% and 9% year-on-year increases in our Handysize and Handymax revenue days
- Our capacity increased as our purchased vessels continued to deliver, increasing the proportion of our owned ships and enhancing our service to customers
- Handymax vessels chartered in on a short-term basis at higher cost at the end of 2013 impacted our first half performance, and we incurred losses on long-term chartered ships we took at higher rates primarily in 2010

Segment Operating Performance

US$ Million	1H14	2H14	2014	2013	Change
Handysize contribution	26.2	2.3	28.5	51.9	-45%
Handymax contribution	(10.7)	(4.1)	(14.8)	8.5	-274%
Post-Panamax contribution	2.7	2.8	5.5	5.7	-5%
Segment operating performance before overheads	18.2	1.0	19.2	66.1	-71%
Direct overheads	(24.7)	(24.5)	(49.2)	(40.0)	-23%
Segment net (loss)/profit	(6.5)	(23.5)	(30.0)	26.1	-215%
Segment EBITDA	53.4	40.6	94.0	115.0	-18%
Segment vessel net book value	1,545.0	1,539.0	1,539.0	1,436.3	+7%
Segment net assets	663.0	516.9	516.9	494.5	+5%

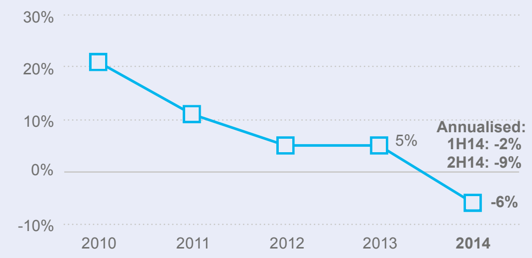
Headcount increased primarily due to the significant expansion of our owned fleet

KPI

Return on Net Assets

(6)%

11 points



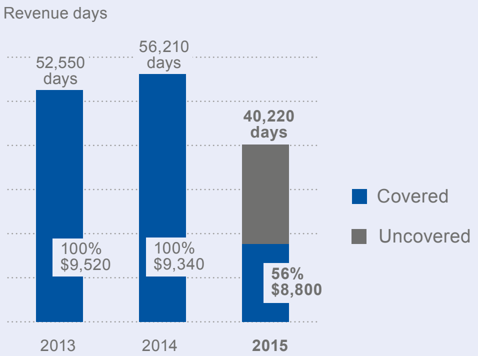
- Our return on dry bulk net assets was negative 6%
- We aim to achieve solid long-term returns on assets, so we have invested counter-cyclically for enhanced returns in stronger markets
- As our owned fleet of dry bulk ships expands and we securing new loans, additional finance costs and borrowings were fully allocated from Treasury to our dry bulk segment thus impacting our dry bulk segment net assets

KPI

Future Earnings and Cargo Cover

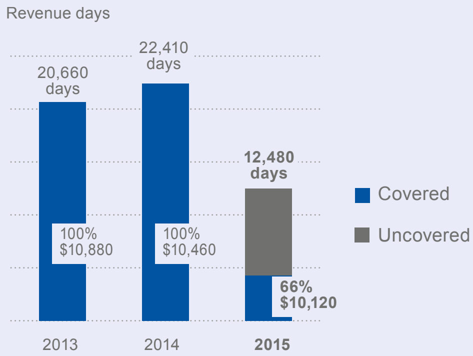
Handysize

56% cover for 2015 at US$8,880 per day



Handymax

66% cover for 2015 at US$10,120 per day



- We have covered 56% and 66% of our 40,220 Handysize and 12,480 Handymax revenue days currently contracted for 2015 (cargo cover excludes revenue 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 long-term contract cover provides a degree of earnings visibility

Our Business Highlights

OUR FLEET: PHYSICAL CAPITAL

We have taken delivery of all 33 high-quality secondhand ships that we committed to purchase since late 2012 at prices which we consider attractive for the long term. Together with a number of delivered newbuildings, they have more than doubled the size of our owned fleet and slotted well into our cargo systems, and are performing well and making a positive cash contribution in a weak market.

We currently operate 218 dry bulk ships of which 80 are owned, 41 are long-term chartered and 97 are on index-linked or short-term charters. A further 18 owned and 14 chartered newbuildings are scheduled to join our core fleet over the next two years, which will increase the number of our owned fleet to a record of almost 100 dry bulk ships.

Page 8
Our Resources in Action
Our Capitals – the resources and relationships we rely on to create value

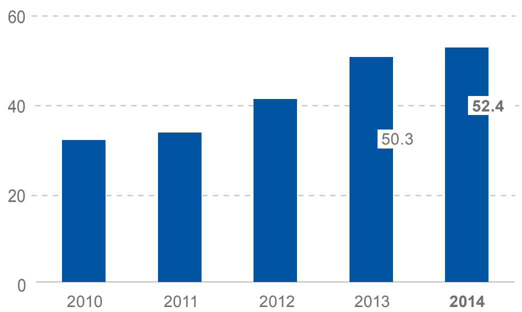
Our owned fleet expansion programme cemented our position as the world's largest owner and operator of Handysize ships complemented by a sizeable Handymax fleet. The increased scale of our fleet of owned and long-term chartered "Handies" – supported by our award-winning in-house technical management team – ensures our ability to deliver industry-leading reliability and shipment frequency and a competitive service for our customers without over-depending on third-party spot market ships.

OUR STAFF AND OFFICE NETWORK: HUMAN CAPITAL

Our service delivery is backed by 11 customer-facing offices from which our dynamic regional chartering and operations teams of 29 nationalities provide our customers with localised commercial and operational support. Our global network covers all major continents and oceans so that we can offer a reliable, tailored and flexible freight service anywhere in the world and at any time.

We strengthened our in-house technical management team in Hong Kong in tandem with the expansion of our owned fleet. We now employ around 3,000 seafarers and, both ashore and at sea, we continue to operate to the highest workplace and operating standards to ensure healthy working conditions and a strong safety culture.

Pacific Basin Cargo Volumes 2010-2014
Million tonnes



OUR PARTNERS: RELATIONSHIP CAPITAL

Underpinning our strength is the endorsement and support we have earned from our over 400 customers for whom we carried 52 million tonnes of cargo in 2014. Despite weak forward market pricing, we continued to secure several multi-year cargo contracts – extending up to 2022 – at reasonable long-term freight rates for us and our customers alike. We work hard to build and maintain understanding, trust and support with our partners, including also tonnage providers, suppliers and agents.

In part due to our partners' strong endorsement of Pacific Basin, we were awarded the first ever "BIMCO Shipping Company of the Year" award for our innovative customer service and solid service reliability – high recognition and a great honour coming from our industry's largest association.

OUR FLEET/CARGO OPTIMISATION: INTELLECTUAL CAPITAL

Our ability to combine our physical, human, relationship and other Capitals – leveraging one against the other – is what enables us to outperform. The synergies of our fleet scale, global office network, efficient cargo systems and operational expertise enable us to generate average daily vessel earnings which outperformed the BHSI and BSI spot market indices by 28% and 12% respectively in 2014.

Our ability to combine our Capitals also makes Pacific Basin stand out as a strong, transparent, long-term counterparty for cargo customers and tonnage providers alike. We offer a healthy, visible balance sheet and a performance track record to match. We are committed to responsible business practices and a high standard of corporate social responsibility which we consider a necessary obligation to all our counterparties and stakeholders.

Outlook

DRY BULK MARKET OUTLOOK

Opportunities

- Growth in Chinese imports of minor bulk commodities
- Solid US economic growth providing stimulus to the global economy
- Lower oil and other commodity prices stimulating greater demand, industrial output and dry bulk exports
- Market pressures causing actual newbuilding deliveries to fall significantly short of scheduled deliveries

Threats

- Low fuel prices causing a general increase in vessel operating speeds potentially increasing global shipping supply
- Further reduction in Chinese economic growth
- Lower commodity prices shutting out smaller producers often using Handysize or Handymax ships
- Declining newbuilding prices may lead to increased new ship ordering and excessive fleet growth
- Greater national protectionism favouring domestic supplies over foreign imports

OUTLOOK FOR OUR DRY BULK BUSINESS

At the time of writing, the Baltic Dry Index (BDI) is at its lowest since indices began in 1985 and the freight market has become dysfunctional in some regions where cargo availability is very limited – exacerbated by the lull around the lunar new year holidays in China.

2015 has started with a larger dry bulk supply surplus than a year ago due to the unexpected failure of demand to outpace moderate fleet growth last year.

Demand growth continues to be threatened by the Indonesian mineral exports ban, reduced Chinese coal imports, lower growth in Chinese economic and industrial development, and the softer growth outlook for most developed economies with the notable exception of the US.

Low crude oil and other commodity prices in time may stimulate the Chinese and OECD economic and industrial output, but they pose a significant threat to dry bulk shipping in the nearer term. Low fuel prices and, in turn, a return to normal vessel operating speeds threaten to worsen the demand-supply imbalance and impede any freight market recovery.

Consequently, we take a cautious view on the freight earnings outlook in the medium term.

The longer term outlook for our own business remains more positive as the versatile Handysize vessel class is better protected in weak markets by greater geographical and cargo diversification and less exposure to the iron ore and coal trades where the vessel surplus is concentrated. In addition, we acquired most of our ships at historically attractive prices, so our large owned fleet benefits from a competitive cost base that helps us to weather protracted market weakness.

STRATEGY

Our core business remains firmly focused on the Handysize and Handymax segments and these will receive even more of our attention as our towage business scales down.

We are managing our business for a weak market scenario over the coming few years which ensures we are also well placed to capitalise on improved trading conditions, should they return sooner. We strive to deliver profitable contributions even in a weak market, and we seek to safeguard the Company's continued strong cash position and EBITDA generation.

We are working hard on making our dry bulk platform even more robust. That includes initiatives to reduce our costs and grow our customer relationships which enhance our access to cargoes – in turn facilitating our continued outperformance of the market.

Good control of our vessel operating expenses, efficient workflows and minimising administrative costs are especially important in these difficult times. We are implementing new ship management and accounting software to facilitate these objectives.

In Handymax, we will concentrate our fleet and cargo focus on a tighter geographical range to enable better ship-cargo matching and to optimise our front and backhaul combinations to generate better vessel earnings.

While we are currently neither buying nor taking ships on long-term charter, we will continue to supplement our core fleet with low-rate short-term chartered ships, which make a good contribution to our service and our results even in the depressed market.

However, this difficult market will present acquisition and chartering opportunities for companies able to access capital.

We remain satisfied with our 51 acquisitions from late 2012 to early 2014, we have more than doubled our owned fleet at historically attractive prices and have enhanced our competitive cost base. All are well suited to our cargo systems, and will leverage the market recovery when it comes.

Analysis of Daily Vessel Costs

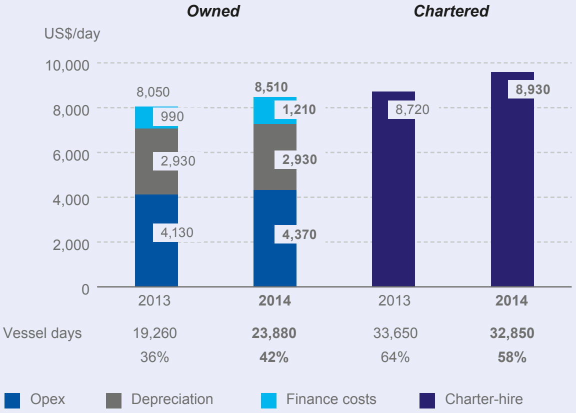
The cost of owning and operating dry bulk ships is the major component of our Group's total costs, and our ability to maintain good control of our "daily vessel costs" has a significant bearing on our operating margins and our financial performance overall. We provide below a short analysis of our daily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

Our dry bulk fleet incurred cost of services (including bunker fuel costs and port disbursements) of US$1.63 billion (2013: US$1.55 billion) representing 93% of total Group cost of services (2013: 94%).

Our proportion of owned Handysize and Handymax vessels increased 6% and 10% to 42% and 24% respectively with the delivery of purchased vessels. That proportion will increase further as our remaining 18 owned newbuildings deliver.

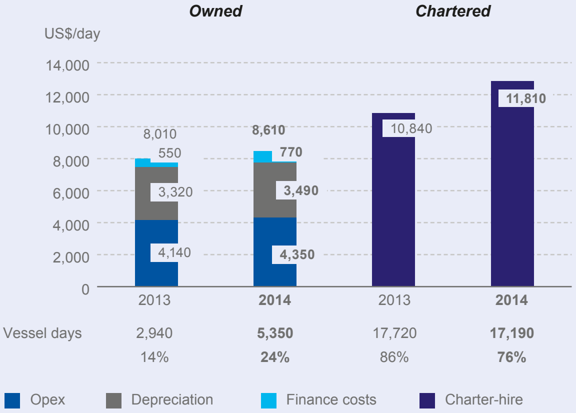
Handysize Daily Vessel Costs

Blended US$8,750 (2013: US$8,480)



Handymax Daily Vessel Costs

Blended US$11,050 (2013: US$10,440)



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Vessel Operating Lease Commitments
Analysis of our long-term, short-term and index-linked inward charter commitments

Opex – The daily opex element of our vessel costs increased 6% for Handysize and 5% for Handymax mainly due to increase in crew wages and more vessels on Atlantic trading which incurred higher costs for stores and spares.

Depreciation – Handysize daily depreciation (including capitalisation of dry-docking costs) was substantially unchanged compared to 2013. Handymax daily depreciation increased due to delivery of our newer and larger size vessels.

Finance costs – Daily finance costs increased due to i) the reallocation of all the financing and associated costs for dry bulk vessels from treasury to the Pacific Basin Dry Bulk segment, and ii) the increase in bank borrowings.

Charter-hire – Chartered-in days represented 58% and 76% of our total Handysize and Handymax vessel days respectively. Our Handysize chartered-in days decreased 2% to 32,850 days (2013: 33,650 days) while our Handymax chartered-in days decreased 3% to 17,190 days (2013: 17,720 days). We reduced the use of chartered vessels with the delivery of our vessel purchases. A non-cash provision of US$101 million was made for inward chartered vessel contracts taken at higher rates primary in 2010.

Daily cash cost – Our average owned and chartered daily cash cost was US$7,520 (2013: US$7,410) for our Handysize fleet and US$10,220 (2013: US$9,970) for our Handymax fleet. With the delivery of our committed newbuildings, the number of Handysize and Handymax owned vessel days in 2015 are expected to increase to 24,970 and 5,650 respectively. Applying the same daily opex and finance costs as in 2014, and applying the existing committed 13,500 Handysize and 5,440 Handymax inward chartered vessel days, the average owned and chartered daily cash cost would be US$7,020 for our Handysize fleet and US$8,440 for our Handymax fleet.

Direct overheads comprise chartering, operations and technical staff and office costs related to our dry bulk ships. Its increase was mainly due to the full-year effect of a step increase in dry bulk headcount following a 31% increase in owned vessels and overhead cost inflation. Spread across our vessel days, the US$49.2 million aggregate overhead translated into a 15% increase in daily cost to US$620 per day (2013: US$540 per day), reverting to 2011 and 2012 levels.

During the year, we secured 11,740 Handysize vessel days (2013: 10,980 days) and 2,540 Handymax vessel days (2013: 2,190 days) via variable-rate, inward charters with rates linked to the Baltic Handysize and Supramax indices. These index-linked vessels represented 36% and 15% of our chartered Handysize and Handymax vessel days respectively.

Our fleet of owned and finance-leased dry bulk vessels experienced an average 0.4 days unplanned technical off-hire per vessel during the period – down from 2.0 days in 2013.

PB Towage
Our Performance and Business Highlights

Our PB Towage division generated a net loss of US$15.1 million in 2014 reflecting the impact on our revenues of an increasingly competitive landscape. Additionally, the Group's consolidated results were affected by towage-related one-off items including:

- non-cash impairments and provisions of US$70.5 million mainly comprising the US$63.9 million impairment and provision we booked in the first half; and
- business disposal losses of US$7.6 million and related exchange losses of US$12.7 million. These comprised the sale of i) our harbour towage business (US$9.9 million net book loss and US$9.3 million exchange loss) and ii) our interest in the OMSA joint venture (US$2.3 million net book gain and US$3.4 million exchange loss).

Segment Operating Performance

US$ Million	1H14	2H14	2014	2013	Change
Offshore & Infrastructure projects	(2.6)	4.1	1.5	21.3	-93%
Harbour towage	2.4	(1.8)	0.6	8.2	-93%
Segment operating performance before overheads	(0.2)	2.3	2.1	29.5	-93%
Direct overheads	(9.0)	(8.2)	(17.2)	(19.0)	+9%
Segment net (loss)/profit	(9.2)	(5.9)	(15.1)	10.5	-244%
Segment EBITDA	(3.0)	(3.0)	(6.0)	24.2	-125%
Segment vessel net book value	126.1	41.5	41.5	181.6	-77%
Segment net assets	136.8	106.7	106.7	203.9	-48%

Offshore Towage

In the offshore towage sector, the wind-down of the construction of Gorgon and other gas projects resulted in increasing competition for fewer employment opportunities, which reduced the revenue of our fleet.

As announced on 17 November 2014, we sold our 50% interest in the Gorgon-focused OMSA joint venture to our joint-venture partner resulting in an expected US$3.5 million gain on disposal and US$3.4 million non-cash charge from foreign exchange reserves. US$1.2 million of the gain has been reclassified as consultancy fees most of which will arise in 2015. Sale proceeds equivalent to US$9.4 million have been received including an amount of US$6 million which we received in January 2015.

Our barging project for Western Desert Resources (WDR) was restructured resulting in unrecoverable project costs of US$3.5 million in the first half of 2014. WDR entered into voluntary administration in September. The administrator has not yet been able to find a buyer for the business, and so we have booked additional charges of US$5.7 million (based on year-end exchange rates) against the debts owing from WDR and the impaired value of vessels, as described in our announcement dated 11 September 2014.

Harbour Towage

Our harbour towage activity was affected by reducing port volumes and increased competition in open ports, and our discussion with PSA Marine did not produce an offer for our harbour towage business. This led us to reassess the prospects for PB Towage necessitating a non-cash impairment charge and a provision in our interim results.

We reached agreement in December to sell our harbour towage business to Smit Lamnalco. The transaction has completed, generating in our consolidated 2014 results: (i) a net book loss of US$9.9 million (US$0.9 million higher than previously announced due to the weaker Australian Dollar and the change in working capital at disposal), and (ii) a US$9.3 million non-cash charge from foreign exchange reserves (US$0.6 million higher than previously announced due to the weaker Australian Dollar).

The disposal of the business as a going concern ensured that the staff and crew transferred as an integral part of the transaction and saves us the significant cost of vessel dockings scheduled for this year. The disposal, along with the sale of a tug and a barge to the same buyer, generated proceeds equivalent to US$63 million which we received on completion in February 2015.

Towage Outlook & Strategy

The completion of this harbour towage transaction and other asset sales leaves Pacific Basin with a towage vessel net book value of US$41.5 million including 13 offshore tugs and 6 barges.

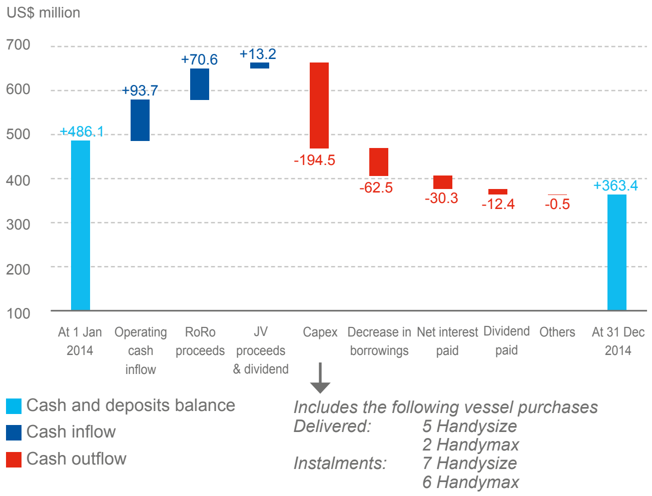
We have downsized our New Zealand and Australian offshore towage organisation significantly, with 2015 direct overheads of the remaining towage operations expected to be below US$5 million. Our remaining towage presence is primarily in the Middle East where we have repositioned some of our offshore tugs from Australia and employment prospects are better. However, the outlook for offshore towage remains challenging and is worsened by the fall in oil prices, which is affecting oil and gas projects.

Our remaining fleet in Australasia includes a few offshore tugs still on charter to OMSA and the laid-up vessels released from the defunct WDR project, which we are looking to sell.

Funding

CASH FLOW AND CASH

2014 Sources and Uses of Group Cash Flow



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

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 the Group's commitments and an appropriate level of liquidity is maintained during different stages of the shipping cycle.

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

Current Position and Outlook

- In late 2014, we drew down US$122 million of new secured bank borrowings.
- As at 31 December 2014, the Group had cash and deposits of US$363.4 million resulting in a 40% net gearing ratio.
- US$179 million of bank borrowings and finance lease liabilities will be repaid in 2015. These include US$89 million in bank loans due that will release 11 vessels from mortgages that can be used for further financing.
- US$350 million of undrawn committed Japanese export credit facilities will largely fund US$385 million of our newbuilding commitments. In 2015, we expect to draw down US$94 million from such Japanese export credit facilities which will fund newbuilding commitments of US$109 million due in the same year.
- Towage sale proceeds of US$69 million were received in early 2015.
- RoRo vessel sale proceeds of about US$60 million are expected to be received in 2015.
- The 2016 convertible bonds principal repayment is able to be funded through both new bank borrowing facilities to be arranged during 2015 using unmortgaged dry bulk vessels and the proceeds from the towage sales.

Cash Flow

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

Cash and Deposits

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

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

US$ Million	**2014**	2013	Change
Cash and deposits	**361.7**	483.2	
Restricted bank deposits			
– non-current	**0.1**	1.3	
– current	**1.6**	1.6	
Total cash and deposits	**363.4**	486.1	-25%
Current portion of long-term borrowings	**(179.1)**	(328.6)	
Long-term borrowings	**(820.6)**	(708.7)	
Total borrowings	**(999.7)**	(1,037.3)	+4%
Net borrowings	**(636.3)**	(551.2)	-15%
Net borrowings to net book value of property, plant and equipment KPI	**40.1%**	34.0%	
Net borrowings to shareholders' equity	**63.5%**	42.3%	
Net working capital	**294.7**	259.3	+14%

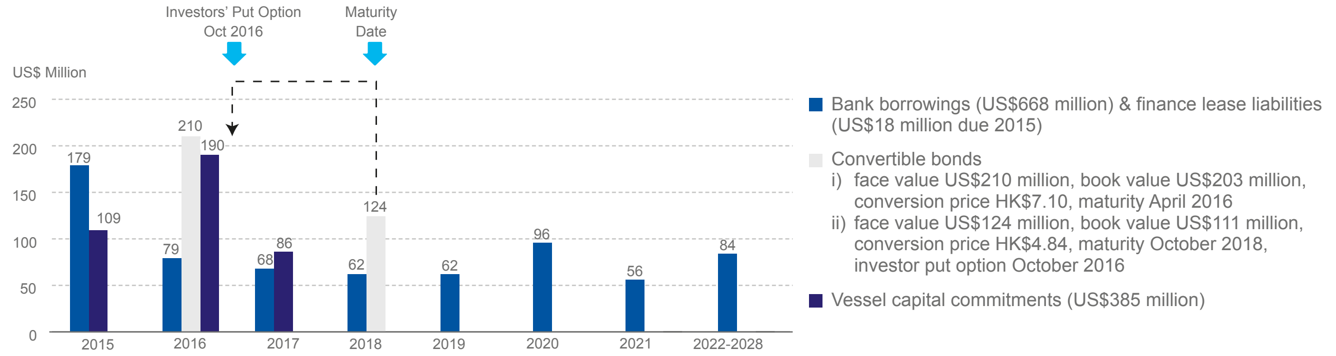
The Group's cash and deposits at 31 December 2014 comprised US$353.9 million in United States Dollars and US$9.5 million in other currencies. They are primarily placed in liquid deposits of 3 months or less and saving accounts to maintain the liquidity to meet the Group's vessel purchase commitments and working capital needs.

Restricted bank deposits at 31 December 2014 primarily relate to additional collateral for certain bank borrowings. The equivalent in 2013 included collateral pledged to maintain guarantees issued for the Towage segment.

During the year, Treasury achieved a 1.2% return on Group cash. Interest income is benchmarked against a target yield of 0.7% being 50 basis point above 3-month USD LIBOR.

BORROWINGS

Schedule of Repayments and Vessel Capital Commitments



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

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

The aggregate borrowings of the Group amounted to US$999.7 million (2013: US$1,037.3 million). They are denominated in United States Dollars, except at 31 December 2013 bank loans equivalent to US$22.2 million are denominated in Australian Dollars.

Bank Borrowings

Bank borrowings (net of deferred loan arrangement fees) were US$668.0 million (2013: US$690.4 million) at 31 December 2014 and are in the functional currency of the business segment to which they relate. Bank borrowings reduced during the year in line with loan amortisation. Towards the year end we drew down total new bank borrowings of US$122 million – secured on 12 vessels – which will refinance the US$89 million of loans due in the first half of 2015. In addition, the Group secured additional Japanese export credit facilities totalling US$350.2 million for 18 newbuildings. The loans under these facilities will be drawn after the delivery of the vessels, starting with US$94 million which is expected to be drawn in the second half of 2015.

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

As at 31 December 2014:

- The Group's bank borrowings were secured by mortgages over 69 (2013: 73) vessels with a total net book value of US$1,246.1 million (2013: US$1,225.4 million) and an assignment of earnings and insurances in respect of these vessels.
- The Group had 30 (2013: 41) unmortgaged vessels with a total net book value of US$262.0 million (2013: US$338.4 million) split into 11 dry bulk ships with a net book value of US$220.5 million and 19 tugs and barges with a net book value of US$41.5 million.
- The Group has been in compliance with all its loans-to-asset value requirements.
- The Group had undrawn committed bank borrowing facilities of US$350.2 million (2013: US$23.8 million).

P/L impact:

The increase in interest (after capitalisation) to US$19.2 million (2013: US$11.3 million) was mainly due to an increase in average bank borrowings to US$647.3 million (2013: US$464.2 million) and the decrease in interest capitalised to undelivered newbuild vessels to US$0.2 million (2013: US$3.3 million). Certain bank borrowings are subject to floating interest rates but the Group manages these exposures by using interest rate swap contracts.

Finance Lease Liabilities

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

Finance lease liabilities as at 31 December 2014 were US$18.3 million (2013: US$23.0 million) relating to three Handysize vessels with a total net book value of US$19.1 million (2013: three with a total net book value of US$25.0 million) whose bareboat charters expire in December 2015. The fixed, equal, quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities on the balance sheet and finance charges in the income statement. Finance charges can be expressed as interest rates, fixed for the period of the leases.

Pursuant to the terms of the bareboat charters, the Group has the option to individually re-purchase each of the three Handysize vessels at any time with three months' notice during the bareboat charter period.

P/L impact:

Finance charges of US$1.4 million (2013: US$5.8 million) represent interest payments on Handysize vessels under finance leases.

Convertible Bonds

The debt components of the 1.75% p.a. coupon April 2016 convertible bonds and 1.875% p.a. coupon October 2018 convertible bonds changed to US$202.8 million and US$110.6 million respectively (2013: US$216.4 million and US$107.4 million) at 31 December 2014. The overall decrease in the debt component amount is mainly due to the partial repayment of the 2016 convertible bonds with a face value of US$20.4 million on 12 April 2014, following the exercise by certain bondholders of their right to redeem the bonds at 100% of the principal amount pursuant to the terms and conditions of the bonds.

The 2016 convertible bonds principal repayment is able to be funded through both new bank borrowing facilities to be arranged during 2015 using unmortgaged dry bulk vessels and the proceeds from the towage sales.

P/L impact:

The US$15.0 million (2013: US$15.2 million) interest expense of the convertible bonds is calculated at an effective interest rate of 4.9%.

FINANCE COSTS

Finance Costs by Nature

US$ Million	Average interest rate P/L	Average interest rate Cash	Balance at 31 December 2014	Finance costs 2014	Finance costs 2013	(Increase)/ decrease in finance costs
Bank borrowings including realised interest rate swap contracts	3.9%	3.9%	668.0	27.8	17.1	(63%)
Finance lease liabilities	6.6%	6.6%	18.3	1.4	5.8	76%
Convertible bonds	4.9%	1.8%	313.4	15.0	15.2	1%
	4.3%	3.3%	999.7	44.2	38.1	(16%)
Finance lease purchase option termination expenses				–	15.3	
Unrealised interest rate swap income				(1.7)	(2.0)	
Other finance charges				1.1	0.7	
Total finance costs				43.6	52.1	16%

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

- Average interest rates for the sources of borrowings (see table above)

	2014	2013
• Group Interest Coverage	**1.9x**	2.3x

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

Our dry bulk and towage operations incurred finance costs of US$43.6 million (2013: US$52.1 million). Included in the 2013 finance costs were US$15.3 million termination costs of the embedded fixed interest rate swap contracts associated with exercising the 10 purchase options on finance-leased vessels.

Following the Group's dry bulk vessel acquisitions and after securing new loans, additional finance costs and borrowings were allocated from Treasury to the dry bulk segment, thus reducing the segment net assets.

For 2014 onwards, all financing and associated costs for existing vessel commitments and future vessel acquisitions, net of interest income, have been allocated to the business segments. Consequently, the Treasury segment has nil net finance cost.

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, US$8.6 million of interest rate swap contract costs were realised and US$1.7 million of unrealised gains arose resulting in a net US$6.9 million swap contract charge. As at 31 December 2014, 12% (2013: 10%) of the Group's long-term borrowings were subject to floating interest rates. As at 31 December 2015 and 2016, we expect 14% and 25% of the Group's existing and committed long-term borrowings will be subject to floating interest rates.

DELIVERED VESSELS

As at 31 December 2014, the Group had delivered vessels with a net book value of US$1,528 million as follows:

		Number	Average size (dwt tonnes)	Average age (years)	Average net book value (US$ Million)	Total net book value (US$ Million)
Dry Bulk	Handysize	67	31,500	8.9	16.1	1,081
Dry Bulk	Handymax	15	55,500	5.9	23.7	356
Dry Bulk	Post-Panamax	1	115,000	3.0	49.3	49
Towage	Tugs & Barges	19	N/A	9.1	2.2	42

Precise vessel market values are difficult to determine when buying interest is limited in uncertain shipping markets. Latest estimated fair market values published by Clarksons are US$14.5 million and US$17.5 million for 5-year old 32,000 dwt Handysize and 56,000 dwt Handymax vessels respectively.

Tugs and barges are denominated in their functional currency of the Australian Dollar, and hence their US Dollar carrying values and commitments are subject to exchange rate fluctuations.

VESSEL COMMITMENTS

As at 31 December 2014, the Group had vessel commitments of US$384.7 million. These vessels are scheduled to deliver to the Group between July 2015 and April 2017.

(US$ Million)	Number of vessels	2015	2016	2017	Total
Contracted and authorised commitments					
Handysize vessels	12	85.4	129.8	34.7	249.9
Handymax vessels	6	23.3	59.9	51.6	134.8
	18	108.7	189.7	86.3	384.7
Funding					
Planned drawdown of committed Japanese export credit facilities		(94.3)	(153.6)	(102.3)	(350.2)

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

VESSEL PURCHASE OPTIONS

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

Earliest year in which options may be exercised	Vessel type	Number of vessels at 31 December 2014[2]	Average age of vessels (years)	Average purchase option exercise price[1] (US$ Million)
2015	Handysize	1	7	13.9
2016	Handysize	2	5	25.6
	Handymax	1	5	30.0
	Post-Panamax	1	5	44.4
2017	Handysize	2	9	17.3
2020	Handysize	4	5	22.8
2021	Handysize	2	6	23.9
	Handymax	1	5	29.3
2022	Handymax	1	7	27.0
2025	Handysize	1	7	27.6
Total		16		

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

Note 2: In respect of three finance lease vessels with an average age of 17 years, we hold purchase options which are currently exercisable at an average price of US$6.1 million.

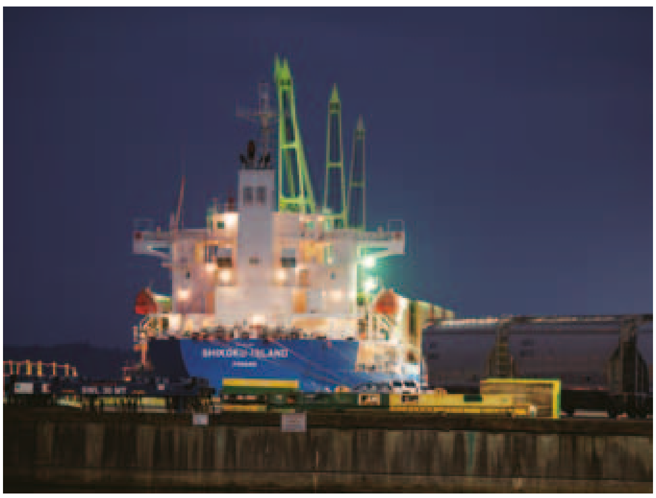
VESSEL OPERATING LEASE COMMITMENTS

Vessel operating lease commitments stood at US$877.8 million (2013: US$854.1 million), comprising: US$590.2 million for Handysize; US$244.9 million for Handymax; US$42.5 million for Post-Panamax; and US$0.2 million for tugs.

Our Handysize operating lease committed days decreased 1.8% to 56,560 days (2013: 57,600 days) while our Handymax operating lease committed days increased 34.1% to 19,410 days (2013: 14,470 days).

As part of Other Expenses, the Group made a US$100.9 million provision in the year ended 31 December 2014 for the remaining charter periods of Handysize and Handymax time charter contracts substantially all of which expire in the next five years as the average inward charter rates are higher than the likely average rate for time charter equivalent earnings during those charter periods. The provision will be released back to the income statement in the periods in which the charter payments for these vessels are due, as follows:

Year	Handysize	Handymax	US$ Million Total
2015	12.3	9.0	21.3
2016	13.0	11.5	24.5
2017	10.6	9.4	20.0
2018	10.6	8.3	18.9
2019	9.6	6.6	16.2
Total	56.1	44.8	100.9



The following table shows the average contracted daily charter rates and the annual total number of vessel days of our chartered-in Handysize and Handymax vessels during their remaining operating lease terms by year, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements.

Commitments Excluding Index-linked Vessels

	Handysize			Handymax		
		Average daily rate			Average daily rate	
Year	Vessel days	Before provision write-back (US$)	After provision write-back (US$)	Vessel days	Before provision write-back (US$)	After provision write-back (US$)
2015	13,500	9,670	8,760	5,440	11,880	10,230
2016	8,920	10,310	8,850	3,490	12,900	9,600
2017	8,470	10,310	9,060	2,920	12,950	9,730
2018	7,340	10,830	9,390	2,730	12,940	9,900
2019	6,620	10,970	9,520	2,190	12,950	9,940
2020+	11,710	10,950		2,640	12,810	
Total	56,560			19,410		
Aggregate operating lease commitments			US$590.2m			US$244.9m

2015 Commitments Including Index-linked Vessels

Our fixed, after provision, rate and variable rate index-linked lease commitments showing 2014 completed and 2015 outstanding lease periods can be analysed as follows:

	2014		**1H2015**		**2H2015**	
Handysize	Vessel Days	Average daily rate (US$)	**Vessel Days**	**Average daily rate (US$)**	**Vessel Days**	**Average daily rate (US$)**
Long-term (> 1 year)	10,530	9,690	**6,040**	**8,770**	**5,690**	**8,940**
Short-term	10,580	8,940	**1,770**	**8,120**	**–**	**–**
Index-linked	11,740	8,110	**4,200**	**Market rate**	**2,530**	**Market rate**
Total	32,850	8,930	**12,010**		**8,220**	
Handymax						
Long-term (> 1 year)	3,940	12,530	**1,850**	**10,340**	**1,840**	**10,710**
Short-term	10,710	12,000	**1,750**	**9,640**	**–**	**–**
Index-linked	2,540	9,910	**670**	**Market rate**	**380**	**Market rate**
Total	17,190	11,810	**4,270**		**2,220**	

Index-linked vessel operating lease commitments refer to leases with market-linked variable charter rates. The variable charter rates are linked to the Baltic Handysize Index or Baltic Supramax Index (as applicable) and adjusted – usually upwards – to reflect differences in the vessels' characteristics compared to Baltic indices reference vessels. Vessels we chartered are typically larger and more fuel efficient than index reference vessels.

Our People

KT So

Accounting Manager

My team and I manage the accounting of our ships' operating expenses. Accuracy of our numbers and reporting is our key responsibility, and we tailor our reporting to address the specific needs of different functions in the Company.

But it's not just about providing numbers. We track and analyse our operating costs in detail, reporting to and working with our Fleet Director and his technical, procurement and crewing managers to ensure precise budgetary control. Fleet safety and productivity is key, so we will not cut corners. However, managing our costs responsibly with the rigour that we do is even more important in challenging market conditions as we face now.

I am proud of my team's hard work and productivity. I feel fulfilled working as a team with the agility necessary to respond to requests for additional analysis with the aim of finding ways to better manage our costs. I also enjoy our contact with external stakeholders, such as our ships' agents around the world to verify costs and settle expenses.

I have been doing this for 35 years and most satisfying of all is training and mentoring my staff ashore and teaching our ships' captains about the on-board preparation of vessel accounts and reports. My team's responsibilities impact the transparency and quality of our operating cost reporting right the way up to our shareholders while also equipping our technical operations with the data and insight to enhance our competitiveness.

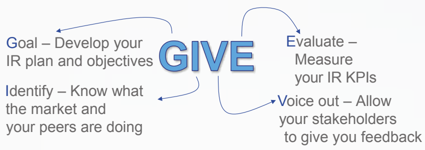
KT So transferred to Pacific Basin in 2000 when we acquired the ship management activities of the Jardine Matheson group – a company that Mr So joined over 45 years ago!

Emily Lau

Corporate Communications & Investor Relations Manager

Investor Relations work is challenging and interesting, especially in the cyclical shipping industry. Every year we connect through calls, meetings and conferences with over 1,000 investors, analysts and journalists interested in our performance, industry developments and even what our peers are doing. We monitor closely the overall dry bulk market and global financial and economic developments so we are able to explain movements in our share price that are driven by industry and other external news. We rely on internal data from our colleagues so we can provide our investors with the most accurate and relevant information they need to evaluate our business, our performance and our prospects.

In doing my job I am guided by the acronym "GIVE" with my ultimate aim being transparency and to GIVE relevant information to the investment community accurately, equally and timely.



2014 saw the 10th anniversary of our listing on the Hong Kong Stock Exchange, and in these ten years, we have developed a strong track record in investor relations. I am very proud of the recognition we have received in the form of regional and global awards for excellence in investor relations, which make our jobs even more fulfilling!

Our investor relations team echoes our corporate tagline "with you for the long haul" knowing that our shareholders invest in Pacific Basin for the value and solid returns we are equipped to generate over the longer term.

Emily Lau joined Pacific Basin February 2005, and she currently serves as Corporate Communications & Investor Relations Manager. Emily is a two-time winner of Institutional Investors Asia's Best IR Professionals award, and her commitment to her work and our shareholders has resulted in a number of awards for Pacific Basin. Our 2013 Annual Report was ranked 15th globally by Report Watch (e.com).

Pages 20-21
To Partner, To Deliver
What we stand for and staff profiles demonstrating what motivates us

Uttam Kumar Jaiswal

General Manager, Marine

I am part of the team that manages the technical operations of our fleet of over 80 owned ships. Our focus is to keep our ships up and running while giving our highest priority to safety and reliability. My own particular specialty is safety.

We look to international mandatory codes and voluntary best practice guidelines as a starting point in our approach to safety. However, our commitment to safety is comprehensively manifested through our Pacific Basin Management System, and innovative initiatives and significant investment in seafarer training that often exceed mandatory requirements.

I enjoy collaborating with colleagues ashore and at sea to identify potential safety and productivity issues, and to refine our processes to address them effectively. The greatest fulfilment in my work comes from seeing the real results that this brings.

In 2014, we launched a campaign comprising five focus areas to "Make Complacency History". We launched our "5 Levels and 5 Rules of Leadership" concept to develop our crew as leaders at sea and to strive for success for themselves and their colleagues. It's about making a long-lasting impact on our crew who in turn enhance our service and make us stand out in our industry.

We work hard to tackle our responsibilities. I believe my focus on maximising the safety of life at sea and the environment is enhancing the long-term sustainability of our business and setting an example for our whole industry to do the same.

Uttam Kumar Jaiswal is General Manager, Marine, with responsibility for the safe operation of our fleet and for ensuring our policies, practices and routines meet or exceed industry requirements. Uttam plays a large part in the safety programme and performance that has won Pacific Basin several awards in recent years, including International Bulk Journal and Lloyd's List's global awards for safety in 2014.

Serge Zeller

Assistant Bunker Manager, Atlantic

I managed our bunker desk in London from where I run our bunker procurement strategy in the Atlantic, developing a portfolio of physical bunker fuel contracts with several of the most reputable marine fuel suppliers and trading houses.

It is a challenging role requiring a good understanding of both the shipping and oil industries, and an appreciation of the volatility of oil prices driven by economic and geopolitical factors. Bunker fuel is our biggest expense, and our bunker cost management strategy is all the more important in in the current challenging dry bulk shipping and oil markets.

Our Company provides freight cover to many of our customers under long-term freight contracts extending several years into the future, which leaves us potentially exposed to significant bunker price fluctuation over time. On concluding a freight contract, we hedge this exposure with financial tools provided by reliable financial institutions. In so doing, we lay off the risk of price fluctuations so our total cash outlay for fuel is aligned with our income from the long-term freight contract.

Effectively piecing together this puzzle requires coordination between our chartering and bunker teams, and between our Hong Kong and London bunker desks. Through good relations with our physical bunker suppliers and bunker hedging counterparties, we aim to provide the most effective management of our Group's largest cost. We do this for the long-term sustainability of our business, and so we can focus our energies on providing our customers with a reliable freight service and to enhance our customers' confidence in Pacific Basin as a healthy counterparty and a long-term freight partner.

Serge Zeller is from Geneva, Switzerland. He joined Pacific Basin in 2013 and transitioned in May 2014 from our Hong Kong headquarters to our London office where he is Assistant Bunker Manager, Atlantic.

Corporate Social Responsibility

A Sustainable Business Approach

We are a substantial shipping business that draws on and impacts a number of Capitals

Capitals are the resources and relationships we rely on to create value

The Capitals that we draw on include:

- Human Capital – the skills, experience and loyalty of our staff that we reward and enhance with fair remuneration and a commitment to health and safety, development and training, equal opportunity and a comfortable and fulfilling **workplace**
- Natural Capital – predominantly our fleet's consumption of fuel and other inputs and the resulting impacts of emissions on the atmosphere and marine **environment**
- Social & Relationship Capital – the mutually beneficial partnership we strive to maintain with our customers, suppliers and other stakeholders in our **communities**, while recognising their rights and needs and always demonstrating responsible business practice

As a large player in our sector with an ambitious vision for the future, we recognise our stakeholder, community and environmental responsibilities which have a bearing on the long-term sustainability of our business. We believe that many of the responsible actions we take also make us competitively stronger and enhance the future value of our business.

These responsibilities and relationships are components of the key material matters that we focus on to deliver our strategy, and so our Corporate Social Responsibility ("CSR") efforts are rooted in our culture and integrated into our daily operating and business practices.

By integrating CSR information in our Annual Report, we create transparency about our operations so that stakeholders have a clear sense of our non-financial business practices and the linkage across our actions, policies and performance.

STRATEGY

The broad strategic objectives that guide our sustainability initiatives relate to workplace and operating practices, the environment and the communities where our ships trade and our people live and work. They also relate to corporate governance which we address separately in the governance section of this report.

Page 48
Corporate Governance

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

HOW WE REPORT ON CSR

This report serves as a record of our CSR performance highlights in 2014, focusing on areas that are material to our business and stakeholders. It is designed to be read in conjunction with the CSR content on our website, which summarises more permanent aspects of our CSR narrative, such as:

- Key inputs and outputs of our business
- Initiatives we pursue to tackle our responsibilities
- Materiality, scope of reporting and CSR governance

Our CSR reporting follows the Environmental, Social and Governance (ESG) Reporting Guide published by the Hong Kong Exchanges and Clearing Limited. This guide has been added to the Listing Rules as a recommended best practice.

CSR Highlights

Workplace

Human Capital

OUR IMPACT IN 2014

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

3,000
seafarers

340
shore-based employees

OUR PERFORMANCE

0.9 **(↓ 31%)**
Lost Time Injury Frequency

6
ships per Safety and Training Manager

57%
shore staff received external training

OUR STRATEGY

We strive to create a culture of safety, innovation and teamwork across our fleet and business enabling our employees to thrive and make a difference.

See more on page 40

Environment

Natural Capital

OUR IMPACT IN 2014

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

12,000,000
nautical miles travelled

790,000
tonnes of heavy fuel oil purchased

OUR PERFORMANCE

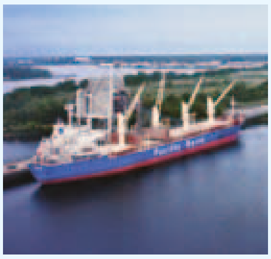
9.22
grams of CO_2 per tonne-mile

902,000
tonnes of CO_2 emitted

18
efficient newbuilding ships still to join our fleet

OUR STRATEGY

Our sustainability initiatives seek to reduce our most material outputs and impacts on the atmosphere and marine environment; we also seek to reduce waste by minimising what we consume both at sea and ashore.



See more on page 42

Community

Social & Relationship Capital

OUR IMPACT IN 2014

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

758
ports of call across 108 countries

13
office locations worldwide

OUR PERFORMANCE

US$218,000
charitable donations and sponsorship – mainly for seafarer welfare causes

"The crew you have assembled is truly one of the best I have had the pleasure to work with."

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

OUR STRATEGY

We advocate and engage with organisations and other stakeholders that are involved in or connected with the business of shipping and the places where we operate; we follow applicable laws and responsible business practices.

See more on page 44

Workplace – drawing on our Human Capital

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

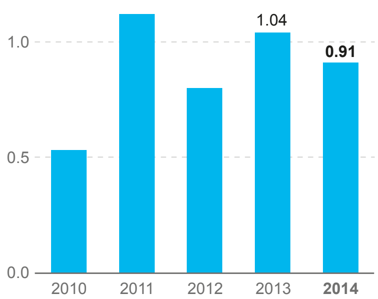
KPI

Key Performance Indicators

External Inspection Deficiency Rate

0.9 ↓ **13%**

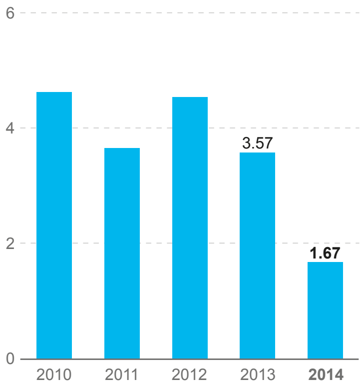
deficiencies per inspection



Total Recordable Case Frequency (TRCF)*

1.7 ↓ **53%**

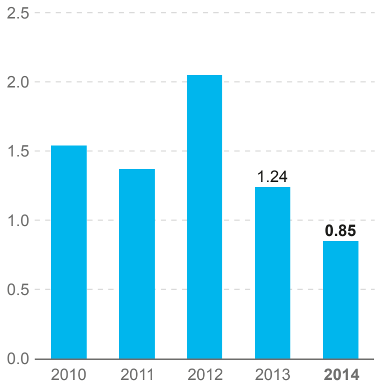
injuries per million man hours*



Lost Time Injury Frequency (LTIF)*

0.9 ↓ **31%**

injuries per million man hours*



Our average deficiencies per inspection decreased 13% to 0.91.

68% of our Port State Control inspections found zero regulatory deficiencies (2013: 71%).

These results are among the best in the industry, especially considering the large proportion of our activity in the Far East where defects are typically raised in larger numbers and registered even if corrected and restored during the inspection.

Aim

Our target in 2015 is to achieve an inspection deficiency rate of less than 1.0 by maintaining our ships to a high standard, as assessed by external Port State Control (PSC) inspections.

The safety of our people is our prime concern so we do whatever we can to minimise personal injury on our ships.

Our "lost time injuries" frequency (LTIF) reduced 31% year on year; such injuries decreased from 15 in 2013 to 13 in 2014 despite the increased number of ships we own.

Our total recordable case frequency (TRCF) reduced 53% to 1.7.

Our safety performance is driven by effective policies and procedures in our Pacific Basin Management System and a comprehensive programme of seafarer training and development at sea and ashore.

In 2014 we reinforced our established safety programme with a new campaign to "Make Complacency History".

Aim

Our target is to substantially eliminate our personal injury incidents and to improve on our best LTIF result of 0.85.

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

www.pacificbasin.com
About Us > Corporate Responsibilities > Corporate Social Responsibility > Workplace
Details on workplace engagement including working conditions, health & safety, development & training, diversity & equal opportunity and responsible business practices

Health & Safety

We put safety first at all times and have clear policies and procedures for our ship and shore staff to follow. Our Pacific Basin Management System is a key element in capturing performance and provides a mechanism for us to analyse our performance to facilitate improvement.

Total injuries and injury frequency on our ships reduced to record-low levels in 2014 despite an increase in the number of owned and finance-leased ships we operate. Most were relatively minor slips, trips and falls, but regretfully there was one fatality where a crew member died from a fall he suffered when engaged in routine work on deck. The incident highlights the risks that are regularly faced in the execution of our responsibilities as well as the critical need to avoid complacency in even the most routine tasks.

We continue to invest in the employment of dedicated on-board Fleet Training Superintendents, and we hosted five training seminars ashore during the year. These seminars allow us to reinforce company policies, share experiences and get to know our seafarers and their families better.

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

We encourage near-miss reporting which in 2014 accounted for 689 reports (2013: 676) through which officers and crew described safety incidents and near-misses – however minor. This is the basis for valuable advice to our seafarers on avoiding similar occurrences in the future, as well as being a vital tool for the prevention of injury and loss.

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

Our Pacific Basin Management System ashore and at sea conforms to the mandatory International Safety Management (ISM) Code. It is also certified by Lloyd's Register Quality Assurance (LRQA) to voluntary standards, including:

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

Recruitment, Training & Development

Investment in the development and training of our staff at sea and ashore is key to maximising our crew safety and productivity, and to motivating and retaining our people.

In 2014, we intensified our focus on complacency – a matter that is increasingly seen as an issue within the wider industry. Complacency can affect anyone in any position and we have a focused campaign to address it.

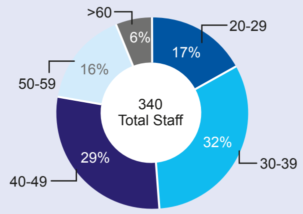
Ashore, we continued our concerted investment in staff training and leadership development, which is resulting in enhanced productivity and a strong foundation for our succession planning. Our recruitment and training of international graduate and other young recruits in recent years (11 in 2014) has armed our teams with keen, talented executives who are now demonstrating their value in our offices around the world.

We extended our 360° feedback programme in 2014 so more senior executives could benefit from their superiors, subordinates and peers' different perspectives on their performance, strengths, weaknesses and developmental needs.

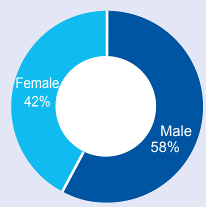
Employee Retention		Training	
Shore Staff	Seafarers	Shore Staff	Seafarers
80% overall (2013: 84%)	88% officer (2013: 81%) 80% overall (2013: 76%)	57% received external training (2013: 32%)	5 training seminars (2013: 5)
36% shore staff under Share Award Scheme (2013: 37%)		6 ships per Safety/Training Manager for pre-joining and on-board training	
		> 3 officer cadets per ship	

Shore Staff (Pacific Basin Group)

Age Distribution

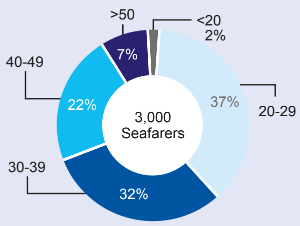


Gender

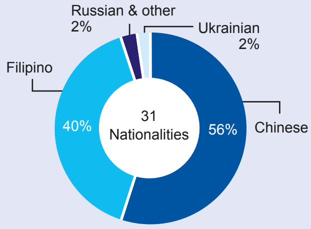


Seafarers (Pacific Basin Dry Bulk)

Age Distribution



Nationality



Environment – drawing on our Natural Capital

As a leader in our industry, we recognise our role in reducing the impact of our operations on air, sea and land

One of the ways we do this is by renewing or expanding our fleet with next generation, modern ships designed and equipped to enhance efficiency. In 2014, we added seven modern ships to our fleet on the water, bringing the average age of our owned ships to eight years. 18 further ships are contracted to deliver into our owned fleet in the next two years – all efficient and of the best design for our trades.

We continued to apply our Right Speed Programme and other operational measures to minimise our ships' fuel consumption and emissions.

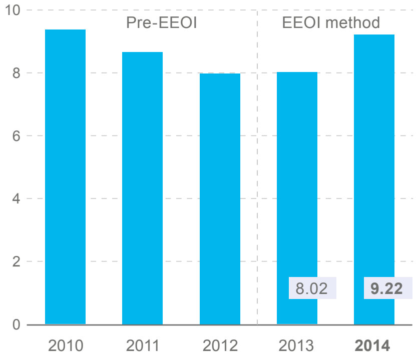
KPI

Key Performance Indicators

CO_2 Emissions

9.22 ↑ **15%**

Grams of CO_2 per tonne-mile



Our fleet's carbon emissions in 2014 increased 15% to 9.22 grams of CO_2 per tonne-mile, as calculated using the new industry-standard ship Energy Efficiency Operational Indicator (EEOI) method. The increase was due to longer ballast voyages early in 2014 because of pronounced regional imbalances in the freight market.

Our average operating speeds – as optimised by our home-grown Right Speed Programme – were substantially unchanged compared to 2013. We continued to apply an array of technologies and practices that we implemented in earlier years to minimise our fuel consumption and emissions, and benefitted from the delivery into our fleet of a number of new ships of efficient design.

Aim

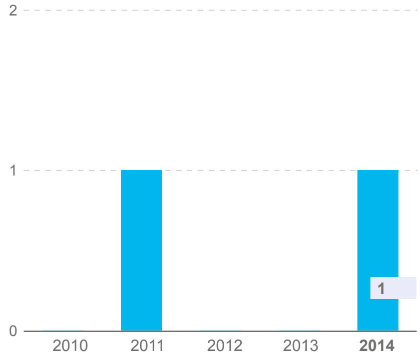
Our target in 2015 is to continue to achieve an EEOI of less than 10.

We aim to do what we reasonably can through technical and operational measures to minimise our CO_2 emissions in view of market pressures to increase ship operating speeds in a low fuel price environment.

Environmental Pollution Incidents

1 ↑ **1**

Incident



In 29,000 ship days in 2014, our owned fleet committed one marine pollution violation. The incident involved the discharge of bilge water while an oil content monitor was malfunctioning, which constitutes a violation of international regulations. We voluntarily disclosed the incident to and cooperated with the relevant authorities. The matter was resolved through appropriate corrective measures under our Pacific Basin Management System.

Aim

To always achieve no pollution incidents.

www.pacificbasin.com
About Us > Corporate Responsibilities > Corporate Social Responsibility > Environment
See more on how we tackle our environmental responsibilities

In 2014, we disclosed our carbon footprint data through:

- the new Carbon Footprint Repository (CFR) developed by Hong Kong's Environment Bureau for listed companies in Hong Kong;
- the inaugural HKQAA Sustainability Assessment for Hang Seng Corporate Sustainability Indexes in which we achieved an "A" rating on a scale of AAA to D; and
- CDP (formerly the Carbon Disclosure Project).

Carbon Footprint Repository for Listed Companies in Hong Kong
香港上市公司碳足跡資料庫

Hang Seng Corporate Sustainability Index Series Member 2014-2015

ADDITIONAL ENVIRONMENTAL PERFORMANCE INDICATORS

The following environmental metrics quantify other material emissions, discharges and impacts from our operations. We have tracked these for several years and they are standard outputs in our industry.

	Unit	2014	2013	2012	2011
Emissions					
At Sea					
Ships in owned fleet (average)	ships	80	61	46	43
CO_2 (Scope 1 emissions from our dry bulk fleet	metric tonnes	902,000	705,100	528,300	616,300
Chlorofluorocarbons (“CFCs”)	kg/month	1.63	2.91	1.42	3.92
On Shore					
CO_2 (Scope 2+3 emissions from headquarter activities*)	metric tonnes	1,293	1,269	1,260	n/a
Energy and Fuel Consumption					
At Sea					
Heavy fuel oil (purchased)	metric tonnes	727,400	716,000	583,600	541,700
Low sulphur fuel oil (purchased)	metric tonnes	61,700	69,500	33,200	10,200
Marine gas oil & marine diesel (purchased)	metric tonnes	20,600	11,500	10,100	8,860
Waste					
Garbage landed	m^3/month/ship	3.57	4.03	2.61	1.73
Garbage discharged to sea#	m^3/month/ship	2.89	1.64	3.76	3.95
Engine room bilge water discharged to sea	m^3/month/ship	7.97	8.71	10.10	9.42
Sludge incinerated	m^3/month/ship	2.26	2.53	3.21	3.36

* Emissions from our headquarter office consumption and activities includes emissions from staff commuting and business air travel, air conditioning, lighting and computer and office equipment, as well as paper and fresh water consumption (audit period: July 2013 to June 2014)

Restated to a comparable basis

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

Underpinning the structure of our operations is the Pacific Basin Management System designed to measure and continually improve every aspect of fleet operations.

In 2014, we purchased more low sulphur marine gas oil instead of low sulphur fuel oil in anticipation of new emission regulations limiting fuel sulphur content to no more than 0.1% in designated emission control areas.

Enhanced engine maintenance and fewer leaks have resulted in reduced bilge water discharge, and availability of cleaner fuels led to reduced sludge incineration.

Reduced refrigeration machinery leakage resulted in significantly less release of Chlorofluorocarbons.

Progress Ashore

Across our offices, we do what we reasonably can to minimise our footprint ashore by addressing environmental elements that are within our control.

Pacific Basin was again awarded a Silver Label from the WWF’s Low-carbon Office Operation Programme that measures and tracks outputs and energy consumption from our headquarters in Hong Kong. An independent audit of our environmental performance determined that our office in Hong Kong (where 58% of our shore-based staff work) produced carbon emissions of 1,293 metric tonnes for the 2013/2014 audit year.

In expanding our office space to accommodate more fleet management staff, we outfitted and equipped our new office space with environmental considerations in mind such as the use of energy efficient T5 lights and 30% fewer lights per unit area than we have used previously. As a result, our carbon intensity in 2014 reduced by 9% to 7.2 tonnes CO_2 per employee.

A

Our EEOI and other environmental and safety KPI data in this report has been measured or calculated in accordance with industry standards, and has been audited by Lloyd’s Register Quality Assurance for ISO9001, ISO14001 and OHSAS18001 certification.

www.pacificbasin.com
About Us > Corporate Responsibilities > Corporate Social Responsibility > Environment
Key inputs and outputs of our ships and our ship-based environmental initiatives

Community – drawing on our Social & Relationship Capital

We recognise our obligations as a responsible member of the communities in which we operate, and we seek to ensure that the interests of these communities are represented within Pacific Basin and vice versa. Our engagement in and contributions to these communities takes a number of forms, in an effort to support their – and our – longer-term sustainability.

We achieve this by:

- Maintaining regular engagement with stakeholders and organisations connected to the shipping industry and the places and jurisdictions in which we operate;
- Ensuring we comply with the laws and regulations of the jurisdictions in which we operate;
- Being mindful of the implications of our business activities on our communities and stakeholders;
- Supporting through activities and donating financially to the most deserving communities and causes most closely connected to our business – in particular seafarer welfare; and
- Supporting and sponsoring our employees who get involved in the communities in which they and Pacific Basin are active or reside, and who participate in groups and associations related to aspects of the shipping industry.

Our Main Communities:

- the seafarer community
- Hong Kong – our headquarters and flag state
- the shipping industry
- the ports where our ships trade
- the marine environment and the communities dependent on it

COMMUNITY HIGHLIGHTS FROM 2014

Pacific Basin gave US$218,000 in donations and sponsorship to good causes in 2014, the majority of which was directed to seafarer-related causes and was raised through staff-driven initiatives.

The Seafarer Community

- Our Human Resources Director is an Asian Ambassador of the Sailors' Society – an organisation we support because of our particular interest in the welfare of seafarers and their dependents globally. Through this role, we promote regionally the need to support the welfare of seafarers whose lives at sea are not easy and who give so much to the business of shipping.
- In 2014, we donated over US$50,000 to the Sailors' Society and the Mission to Seafarers.
- We were main sponsors of the Sailors' Society Hong Kong dinner, which, despite the downturn in the maritime sector, raised over US$150,000 for seafarers in need around the world.
- We gave over US$90,000 towards emergency disaster relief following Typhoon Yolanda which devastated large parts of the Philippines which is home to 40% of our seafarers.
- We gave US$15,000 to seafarer, port and other maritime-related causes in countries where our ships frequently trade.

"Our sponsors' long-term support is crucial to sustaining our welfare output. And continuation of these crucial alliances and the industry's recognition of seafarers' need for our welfare work is fundamental to being able to sustain our free provision of services."

the Sailors' Society

Our Hong Kong Community

- In 2014, we deepened our association with the Hong Kong Maritime Museum by becoming inaugural partners under its new "CSR Partner Programme" which seeks to match the museum's programmes and initiatives with our shipping and Hong Kong community-focused social responsibility priorities. We have been supporters of the Museum for over 10 years, from its incorporation in 2003, opening in 2005 and relocation in 2013 to a more prominent location at Central Pier 8. From its new location, public and education programming has expanded significantly with local and international schools, community groups and families. In 2014, student visits were up 64% to 6,005, while 585 adults attended lectures and 1,700 joined family activities during the year. We occasionally turn to the museum and its exhibits for props that enhance the quality of training of our young staff.

- In 2014, we funded a fourth scholarship at Hong Kong Polytechnic University where two students are currently pursuing a bachelor's degree in International Shipping and Transport Logistics under our sponsorship. The first two recipients of our scholarship now work at Pacific Basin.
- The Fair Winds Charter which we signed up to in 2013 was extended in February 2014 for another year. Through this voluntary scheme, we and other ship operators undertake to switch to low-sulphur (0.5%) fuel when our ships are berthed in Hong Kong. The charter is now expected to lead to new Hong Kong regulation mandating fuel switch at berth in 2015, and eventually to prompt emission control measure in the Pearl River Delta.

The Shipping Industry

- Pacific Basin and its senior management ensure our regular engagement with the shipping industry and relevant governmental and regulatory bodies through membership of appropriate industry organisations such as shipowners' associations. Our senior managers have assumed two new notable shipping association positions in recent months:
    - Our Chief Financial Officer became a non-executive director of the Standard P&I Club, the board of which assesses claims from shipping incidents by its members.
    - Our Fleet Director was elected Vice Chairman of the International Association of Dry Cargo Shipowners (Intercargo). Intercargo works with regulators and other shipping associations to ensure that shipping operates safely and efficiently, and it actively participates in the development of global legislation through the International Maritime Organization and other similar bodies.

www.pacificbasin.com
About Us > Corporate Responsibilities >
Corporate Social Responsibility > Community
Summary of memberships and committee positions we have with industry organisations through which we take an active role in discussion on legislative, regulatory and operational changes that affect our industry.

Ports Where our Ships Trade

- In 2014 our ships called at 758 ports across 108 countries.
- Our crew and ships are considered ambassadors for Pacific Basin wherever they sail, so we inspire them to:
    - strictly abide by requirements under applicable environmental law so as to minimise our impact on the cities, towns, ports and shorelines we visit;
    - show skillful seamanship and act professionally in the way they conduct their ships' business;
    - be respectful law-abiding visitors, to show warm hospitality towards visitors on board, and to be in every way becoming of Pacific Basin personnel; and
    - establish and maintain good relations with port authorities, agents and other stakeholders in the places we visit.

One measure of our success in this area is the feedback we get from stevedores, port operators and other stakeholders in the ports we call. Here are two examples of messages of appreciation we received in 2014:

"The crew you have assembled is truly one of the best I have had the pleasure to work with, and, over the 30 years in stevedoring, I have worked with a lot. They are professional, experienced, and always willing to lend a hand. Their level of performance makes all our jobs so much easier, smoother and efficient. Our compliments to the crew. Thanks so much."

"I am pleased to extend my appreciation for your crew on board for their performance and commitment during the latest loading. The crew was well-organised and professional. The on board team followed three simple rules: (1) proper pre-planning and cargo gear checks before arrival, (2) good management, control and supervision during loading operation, and (3) working as a team with longshoremen for successful loadings one after the other. I look forward to continued support, efforts and commitment from all your seafarers on board the Pacific Basin fleet who are your brand ambassadors delivering their best performance and upholding a high standard for Pacific Basin."

Governance
Our Directors

David M. Turnbull

Chairman (age 59)

David spent 30 years with the Swire Group where he held various senior management positions. He was chairman of Swire's Hong Kong-listed companies Swire Pacific, Cathay Pacific Airways and Hong Kong Aircraft Engineering Company.

Education & qualifications:
Cambridge University: Master of Arts degree in Economics

Term of office:
Appointed INED in May 2006
Appointed Chairman in January 2008 and Executive Director in July 2008
Current term expires at the 2017 AGM

External appointments:
Non-executive director of Green Dragon Gas and Greka Drilling (both London AIM listed)

INED of Hong Kong-listed Sands China and The Wharf (Holdings) Limited

Committee membership:
Executive Committee

Mats H. Berglund

Chief Executive Officer (age 52)

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

Education & qualifications:
Gothenburg University Business School: a "Civilekonom" degree (equivalent to MBA in Business and Finance)

Advanced Management Program at Harvard Business School in 2000

Term of office:
Appointed Executive Director in June 2012

Current term expires at the 2015 AGM

External appointments:
None

Committee membership:
Chairman of Executive Committee

Andrew T. Broomhead

Chief Financial Officer (age 53)

Andrew joined Pacific Basin in 2003 as the Group's Chief Financial Officer and Company Secretary. He was appointed as an Executive Director in September 2010 responsible for Group finance and accounting, investor relations, and corporate governance and compliance. He stepped down from Company Secretary in 2012. Andrew has previously worked with Deloitte, Haskins & Sells, Samuel Montagu, International Finance Corporation, Bakrie Investindo and Sanwa International Finance. He has been based in the UK, USA, Singapore, Indonesia and Hong Kong, working in Asia for over 20 years.

Education & qualifications:
Cambridge University: Master of Arts degree in Natural Sciences.

Fellow of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

Breakthrough Programme for Senior Executives at IMD Business School

Term of office:
Appointed Executive Director in September 2010

Current term expires at the 2016 AGM

External appointments:
Non-executive director of The Standard Club Ltd since 16 May 2014

Committee membership:
Executive Committee

Chanakya Kocherla

Chief Technical Officer (age 57)

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

Education & qualifications:
Directorate of Marine Engineering Training, India: Marine Engineer College of Maritime Studies, Southampton, UK: Certificate of Competency (Motor)

Various executive development programmes in Hong Kong, Singapore and the IMD Business School

Term of office:
Appointed Executive Director in June 2012

Current term expires at the 2015 AGM

External appointments:
None

Committee membership:
Executive Committee

Robert C. Nicholson

Independent Non-executive Director (age 59)

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

Education & qualifications:

University of Kent

Qualified as a solicitor in England and Wales and in Hong Kong

Term of office:

Appointed INED in March 2004

Current term expires at the 2016 AGM

External appointments:

Executive director of HK-listed First Pacific and held non-primary directorships in its subsidiaries or associates including Metro Pacific Investments Corporation, Philex Mining Corporation and Philex Petroleum Corporation (all Philippines-listed)

Executive chairman of UK-listed Forum Energy plc

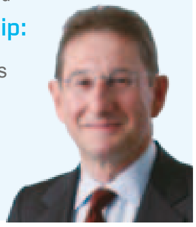
Commissioner of Indonesia-listed PT Indofood Sukses Makmur Tbk

INED of HK-listed Lifestyle Properties Development Limited

Committee membership:

Chairman of Remuneration and Nomination Committees

Audit Committee



Patrick B. Paul

Independent Non-executive Director (age 67)

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

Education & qualifications:

Oxford University: Master of Arts degree

Chartered accountant

Term of office:

Appointed INED in March 2004

Current term expires at the 2015 AGM

External appointments:

INED of Johnson Electric Holdings (HK-listed)

INED of The Hongkong and Shanghai Hotels (HK-listed)

Committee membership:

Chairman of Audit Committee

Remuneration and Nomination Committees

Alasdair G. Morrison

Independent Non-executive Director (age 66)

Alasdair served with the Jardine Matheson Group for 28 years holding various senior positions including that of group managing director. He then moved to Morgan Stanley where he was a managing director and then chairman of Morgan Stanley Dean Witter Asia, and chairman and chief executive officer of Morgan Stanley Asia. He spent five years as Senior advisor to Citigroup Asia Pacific until January 2015.

Education & qualifications:

Cambridge University: Master of Arts degree

Program for Management Development at Harvard Business School

Term of office:

Appointed INED in January 2008
Current term expires at the 2015 AGM

External appointments:

INED of MTR Corporation (HK-listed)

Committee membership:

Audit, Remuneration and Nomination Committees

Daniel R. Bradshaw

Independent Non-executive Director (age 68)

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

Education & qualifications:

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

Term of office:

Appointed Non-executive Director and Deputy Chairman in April 2006

Stood down as Deputy Chairman in January 2008 and was redesignated as INED in September 2010

Current term expires at the 2017 AGM

External appointments:

Non-executive director of Euronav (listed on Euronext in Brussels and NYSE)

INED of IRC (HK-listed) and Gaslog Partners LP (listed on NYSE)

Director of Greenship Offshore Manager Pte. Ltd., Kadoorie Farm & Botanic Garden Corporation, and WWF Hong Kong

Committee membership:

Audit, Remuneration and Nomination Committees

Irene Waage Basili

Independent Non-executive Director (age 47)

Irene held various managerial positions in the shipping industry, including Western Bulk Carriers Holding ASA and Van Ommeren Shipping Holdings BV. From 1999 to 2007 she held positions in Wallenius Wihelmsen Logistics, first as a manager of contracting and strategy and later as Vice President, Global Commercial in 2004. From 2007 to 2011, Irene served as Vice President, Marine of Petroleum Geo Services with responsibility for fleet and marine strategy following its acquisition of Arrow Seismic ASA where she was the chief executive officer.

Education & qualifications:

Boston University: Bachelor of Business Administration degree

Term of office:

Appointed INED on 1 May 2014

Current term expires in May 2017, subject to re-election at the 2015 AGM

External appointments:

Chief executive officer of GC Rieber Shipping and Director of Kongsberg Gruppen ASA (both listed on the Oslo Stock Exchange)

Committee membership:

Audit, Remuneration and Nomination Committees

Corporate Governance

High Standards

High standards of corporate governance are central to achieving objective value for our investors.

In setting our standards, the Board considers the needs and requirements of the business, its stakeholders and the Corporate Governance Code (the "Code") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the year ended 31 December 2014, the Group has complied with all code provisions of the Code as set out in Appendix 14 of the Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules"). The Group continues to adopt the recommended best practices under the Code with the exception that the Group provides a quarterly trading update, instead of publishing quarterly financial results, to enable its shareholders to assess its performance, financial position and prospects. The Group believes a trading update is a more appropriate mean in providing its shareholders the key information to assess the development of its business on a quarterly basis.

The Board of Directors

Board Composition and Responsibilities

As at the date of this Annual Report, the Board comprises the Chairman, three Executive Directors and five Independent Non-executive Directors ("INEDs"), which exceeds the Listing Rule requirement that INEDs shall represent at least one-third of the Board. The Board of Directors is collectively responsible for directing and supervising the affairs of the Company. The roles and responsibilities of each Board member are clearly set out and are available on the Company's website and their biographical details are set out in the "Directors" section of this Annual Report.

During the year ended 31 December 2014, all Directors have provided confirmation to the Company that sufficient time and attention has been given to the affairs of the Company.

All Directors have disclosed to the Company the number and nature of offices held in Hong Kong or overseas listed public companies or organisations and other significant commitments, as well as the identity of the public companies or organisations.

In accordance with the Company's Bye-laws, at each annual general meeting one-third of the Directors for the time being (rounded up if the number is not a multiple of three) shall retire from office by rotation on the basis that every Director should retire at least once every three years.

An effective Board is a key to setting the strategic direction and policies of the Company. To achieve this, the Board thought needs stimulating with a balance of fresh perspectives and a long-term understanding of shipping cycles. We lay out below some of the important criteria in achieving an effective Board:

- **Dynamic Board composition**

  Since listing in 2004, there have been a total of 20 Board members, and currently the Board comprises 9 members. During the last five years, the changes in the number of Executive Directors and Non-executive Directors (including INEDs) are:

	At 1 Jan 2010	Movements		At 31 Dec 2014
Executive Directors	4	–3	+3	4
Non-executive Directors	6	–2	+1	5
	10	–5	+4	9

- **Separate formalised roles for the Chairman and CEO**

  The Chairman oversees the executive team and discusses the daily affairs of the company with the CEO. He has in the past provided continuity of management during unexpected absences, hence safeguarding long-term management leadership. The Chairman is responsible for reviewing proposed plans for the company prior to presentation to the Board. His review takes into account long-term goals and fleet growth combined with more immediate matters related to debt levels, cash flow, cash balances, risk assessment, other required capital expenditure and shareholder requirements.

  The CEO carries out day to day management and execution of the Group's activities and strategic initiatives. He formulates and proposes Group strategy and policy to the Board. He also ensures appropriate information is provided regularly so that Board members can actively contribute to the Group's development.

- **Executive Directors commitment to the business activities of the Group**

  The Executive Directors are required to devote all of their active or contracted business time to the business and affairs of the Group and are not permitted to engage in any other business which is in competition with that of the Group.

- **Role of the INEDs**

  The INEDs play a key role in protecting shareholders' interests. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, and enhance the effective strategic management of the Group through independent, constructive and informed contributions. The INEDs provide a long-term view of the business development through shipping cycles and offer views that go beyond the short-term market movements.

- **INEDs' period of office**

  The Board selects INEDs based on their ability to contribute to the affairs of the Group, and of overriding importance is that each INED possesses a mind-set that is independent and constructively challenges the Group's views. INEDs are not required to have a shipping background as, with time on the Board, they become familiar with the specific risks of shipping and better able to exercise their independent judgement when the Board debates strategy. Independence from executive management is particularly important as the Group has no controlling shareholder; hence continuity of the INEDs provides stability to the Board decision-making process, compensating for any turnover in the executive management team. The Board believes that it is not appropriate to apply an arbitrary period of service beyond which a director is no longer considered independent. However, the Board will periodically seek new INEDs to join the Board so as to sustain its source of independent views.

- **New INED appointment**

  In recognition of the importance in identifying people with relevant experience for the Group, the Chairman and the Nomination Committee engage international search firms to identify suitable candidates when needed. The Nomination Committee acknowledges the importance of diversity within the Board in terms of nationality, industry experience, background and gender.

  Following such a recruitment process, the Company was pleased to welcome Mrs. Irene Waage Basili to the Board in May 2014 as an Independent Non-executive Director, who adds diversity to the Board as well as a shipping business and management expertise.

Page 47
Our Directors
Biography of
Irene Waage Basili

- **Assessment of INEDs' independence**

  The Board considers that all of the existing INEDs bring strong independent oversight and continue to demonstrate independence. The five INEDs have given written confirmation to the Company that they remain independent. In reaching these conclusions, each INED was considered and confirmed that they:

  1. Have demonstrated continued independent judgement which positively contributes to the development of the Company's strategy and policies;
  2. Do not receive any remuneration from the Company apart from director's fees and does not participate in the Group's staff incentive plan or pension scheme;
  3. Have not held an executive position in the Company;
  4. Do not receive remuneration from a third party in relationship to the directorship;
  5. Do not have, and has not had in recent years, any direct financial, business, family or other material relationships with the Group, its management, advisers and business;
  6. Do not hold any cross directorships or other significant links with other directors through involvement with other companies;
  7. Hold less than 1% of the common stock of the Company; and
  8. Do not serve as a director or employee of a significant competitor of the Group.

Directors' Continuous Professional Development

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills as required by the Code. With the assistance of the Company Secretary, all Directors receive updates on legal, compliance and regulatory issues as directors of a Hong Kong-listed company, as well as updates on the industries and the markets in which the Group operates and significant changes in financial accounting standards, all of which were presented at one of the Board meetings during the year. Relevant training courses and reading materials were also identified by the Company during the year and records of training of all Directors have been provided to the Company Secretary. Mrs. Irene Waage Basili was given an induction on appointment before she formally joined the Board in May 2014.

Board Evaluation

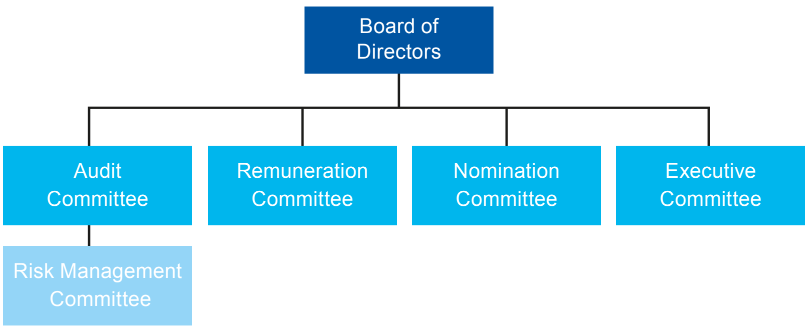
The annual board evaluation was conducted by the Chairman of the Board and by the Chairman of the Audit Committee by way of individual interviews with each Director in November 2014. The Board considers that it is well composed from the diversity and structure perspective with desirable combination of skills, experience and perspectives and its operation has been effective. The Directors continue to consider succession planning a key focus.

The Board and its members' responsibilities

Primary Responsibilities	• Accountable to the shareholders of the Company • Development of the Group's long-term corporate strategies and broad policies • Approve budgets and business plans • Approve acquisition or disposal of investments and assets in particular those that require shareholders' notification or approval under the Listing Rules • Oversee the management of the Group • Prepare accounts and financial statements of the Group • Evaluate the performance of the Group • Lead corporate governance best practice • Periodically assess the achievement of targets set by the Board • Oversee matters that may involve a conflict of interest of a substantial shareholder or a Director
Delegates to	• Board Committees: detailed evaluation of certain responsibilities (outlined later in this section) • Executive Directors: oversight of the Group's business operations; implementation of strategies laid down by the Board; and the making of day-to-day operating decisions

Board Committees

The Board has established Audit, Remuneration and Nomination Committees in accordance with the Code and all members of these three Board Committees are INEDs. The Board also operates through an Executive Committee to streamline the decision-making process of the Company in certain circumstances. Decisions made by the Board and the Board Committees are based on detailed analysis prepared by the management which includes: (i) monthly performance analysis; (ii) periodic investment and divestment proposals relating to our vessels and equity interests; and (iii) periodic Board meetings to evaluate management strategic priorities. The terms of reference of these Board Committees are available on the Company's website.



www.pacificbasin.com
About Us > Corporate Responsibilities > Corporate Governance
Board & Board Committees

Board in action – March 2014
Mr. Chanakya Kocherla met the crew on board M.V. "Jumeirah Beach" at our ship launching ceremony

Board, Board Committee Meetings and Annual General Meeting in 2014

The meetings schedule of the Directors and Board Committees is planned a year in advance in order to facilitate participation by all members of the Board and Board Committees. The Board has four regular meetings annually to discuss business strategy, operational issues and financial performance and it met in total on four occasions during 2014. The attendance of each Director at Board meetings, Committee meetings and the AGM are set out below.

	AGM	Board	Audit Committee[1]	Remuneration Committee	Nomination Committee
Executive Directors					
David M. Turnbull (Chairman)	1	4/4			
Mats H. Berglund (Chief Executive Officer)	1	4/4			
Andrew T. Broomhead (Chief Financial Officer)	1	4/4			
Chanakya Kocherla (Chief Technical Officer)	0	4/4			
Jan Rindbo – resigned on 7 November	0	3/3			
Independent Non-executive Directors					
Patrick B. Paul	1	4/4	4/4	1/1	1/1
Robert C. Nicholson	1	4/4	4/4	1/1	1/1
Alasdair G. Morrison	1	4/4	4/4	1/1	1/1
Daniel R. Bradshaw	1	4/4	4/4	1/1	1/1
Irene Waage Basili – joined on 1 May	N/A	3/3	3/3	1/1	1/1
Total number of meetings held during the year	**1**	**4**	**4**	**1**	**1**

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

The Audit Committee

Membership

Chairman: Patrick B. Paul

Members: All five INEDs

Main Responsibilities

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

Work Done in 2014

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

- review and discussion of the external auditors' Audit Committee Report in respect of the 2013 full year audit and 2014 interim review;
- review of the 2013 Annual Report and accounts and the 2014 interim report and accounts with a recommendation to the Board for approval;
- review and approval of the Risk Management work plan for 2014;
- review of the Risk Management Committee reports and consideration of the Internal Audit requirements;
- review of the adequacy of the Group's marine related insurance cover;
- recommendation of the revised terms of reference of the Remuneration Committee to the Board for approval;
- noting that there were no continuing connected party transactions for 2013; and
- annual review of the terms of reference of the Risk Management Committee.

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

The Remuneration Committee

Membership

Chairman: Robert C. Nicholson

Members: All five INEDs

Main Responsibilities

1. Make recommendation to the Board on the Company's policy and structure for Directors' remuneration and desirability of performance-based remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;
2. Determine, through authority delegated by the Board, the remuneration packages of the Executive Directors and certain higher paid employees;
3. Review and make recommendation to the Board on the terms of appointment for Directors when considered necessary;
4. Make recommendation to the Board relating to Directors to ensure fair (and not excessive) compensation payments and appropriate arrangements after considering contractual entitlements, in the case of any loss or termination of office or appointment and dismissal or removal for misconduct;
5. Administer and oversee the Company's 2013 Share Award Scheme and other equity or cash-based schemes of the Company in place from time to time, and explicit review and approve the granting of share awards to any staff members in the Group;
6. Approve the disclosure statements of the Company's policy and remuneration for Directors; and
7. Ensure no Director approves his or her own remuneration. The remuneration of Non-executive Directors is determined by the Chairman and the CEO based on the responsibilities of each individual and international market practice.

Work Done in 2014

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

- approval of the remuneration package of an Executive Director relocating to Hong Kong;
- approval of the grant of restricted awards to certain staff members;
- approval of the amendment to increase the level of basic salary over which the Remuneration Committee has authority; and
- assessment of the performance of Executive Directors and certain higher paid employees and approval of their 2014 bonuses, 2015 pay review and share awards.

The Nomination Committee

Membership

Chairman: Robert C. Nicholson

Members: All five INEDs

Main Responsibilities

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

Work Done in 2014

The Nomination Committee held one meeting during the year. Its work included:

- review of succession planning documents covering key positions within the senior management level of the Group;
- review of the existing structure, size and composition of the Board;
- assessment of the independence of each INED;
- consideration of the adequacy of the number of INEDs by reference to the Stock Exchange regulations;
- recommendation to the board of the appointment of Mrs. Irene Waage Basili as an INED, the first female member of the Board of the Company; and
- review of the competency of existing senior staff of the Group for business needs.

The Executive Committee

Membership

Chairman: Mats H. Berglund

Members: All four Executive Directors

Main Responsibilities

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

Work Done in 2014

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

- announcements on the commencement and expiration of the exercise period of put option right of the Group's 1.75% coupon Convertible Bonds due 2016 and an announcement on completion of the partial investor put;
- announcements on the conversion price adjustments in respect of the Group's Convertible Bonds;
- execution of loan documentation for three 12-year post-delivery JBIC term loans of an aggregate amount of US$350 million to finance 18 newbuildings;
- announcement of the 2014 AGM voting results;
- acquisition of a handysize vessel that did not require announcement under the Listing Rules;
- announcement on the re-designation of Chief Technical Officer;
- extension of a cargo contract from 2016 to 2021;
- approval of a six year cargo contract commencing 2018; and
- approval of 2 bilateral loan facilities amounting to US$101 million for drawdown within 2014.

Risk Management & Internal Controls

Framework

The risk management and internal controls system is to help the Group achieve its long-term vision and mission by identifying and evaluating the Group's risks and by formulating appropriate mitigating controls to protect our business, stakeholders, assets and capital. Risk management and Internal Control Systems are embedded in our business functions and we believe that it enhances long-term shareholder value. The risks the Group is subject to are directly linked to the Group's strategy.

Page 14-19
Strategy Delivery & Risks

The Board has overall responsibility for the Group's system of internal controls and the assessment and management of risks. The primary responsibility for detailed risk identification and management lies with the respective business heads. The Risk Management Committee ("RMC"), reporting to the Audit Committee, is responsible for strengthening the Group's risk management culture, ensuring the overall framework of risk management is comprehensive and responsive to changes in the business, and managing the internal audit function. It regularly reviews the completeness and accuracy of risk assessments, risk reporting and the adequacy of risk mitigation efforts.

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

- **Control Environment**

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

- **Risk Assessment**

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

- **Control Activities**

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

- **Information and Communication**

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

- **Monitoring**

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

The Risk Management Committee

Membership

Chairman: Mats H. Berglund

Members: CFO, Company Secretary, Risk and Internal Audit Manager

Main Responsibilities

1. Strengthen the Group's risk management culture;
2. Facilitate the identification of significant risks of the Group;
3. Review significant risks of the Group through an annual review with division heads;
4. Review and recommend appropriate internal controls and policies;
5. Develop an internal audit plan; and
6. Manage the annual review and testing of internal controls.

Work Done in 2014

The RMC met three times during the year and reported to the Audit Committee twice on the annual risk assessment and internal control review and testing. Its work in 2014 included:

- review significant and emerging risks of the Group with division heads, particularly in relation to geographical deployment of vessels, bunker management and marine insurance;
- review of the Group's information technology systems to identify if there are any security and efficiency issues;
- enhancement of online risk assessment questionnaire for collaborating with division heads on annual risk assessment; and
- review of composition of the Risk Management Committee and its terms of reference.

Annual Assessment

Risks identified and their respective mitigating controls are documented in the risk registers and reviewed by the Audit Committee at least annually. The mitigating controls are reviewed and tested periodically by reference to the Group's strategy and risk ranking of each individual risk area.

The RMC, with the assistance of appropriate staff from other departments, conducts regular meetings with division heads and managers from the headquarters and regional offices so as to keep abreast of issues and new risks that are embedded in the business operations. The criteria for assessing the effectiveness of internal controls are based on whether the mitigating controls have operated throughout the period being reviewed. The result of the annual assessment is communicated with division heads and managers to formulate measures to rectify any major control weaknesses.

Internal Control System Effectiveness

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

In respect of the year ended 31 December 2014, the Board has reviewed the internal control system of the Group and no significant areas of concern were identified.

STAKEHOLDER SURVEYS

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

DISCLOSURE OF INSIDE INFORMATION

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

- the Group conducts its affairs with close regard to the disclosure requirement under the Listing Rules as well as the "Guidelines on Disclosure of Inside Information" published by the Securities and Future Commission in June 2012;
- the Corporate Communications Policy was revised and adopted with effect from 2013;
- the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public through channels such as financial reporting, public announcements and its website;
- the Group has included in its Code of Conduct a strict prohibition on unauthorised use of confidential or inside information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Executive Directors, Corporate Communications & Investor Relations Officers and Director of Business Analysis are authorised to communicate with parties outside the Group.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

SENIOR MANAGERS' AND STAFF'S SECURITIES TRANSACTIONS

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

No incidence of non-compliance by these senior managers and staff was noted by or reported to the Company during the year except that a senior manager traded in the Company's securities during an eligible period prior to receipt of written approval from the Company. All senior managers and staff members of the Company who are bound by the Model Code were formally reminded that the Dealing Rules stipulate that written approval must be received before such transactions can proceed.

DIRECTORS – REMUNERATION AND SHARE OWNERSHIP

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

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors, for services provided for the year ended 31 December 2014 is as follows:

		US$'000
Audit	Non-audit	Total
1,096	594	1,690

OUR SHAREHOLDERS

As at 31 December 2014, Pacific Basin had 412 registered shareholders of whom 345 or 83.7% have their registered addresses in Hong Kong.

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Investor Relations
Details of our Shareholder analysis

Board in Action
Board of Directors met shareholders at the AGM

SHAREHOLDER COMMUNICATIONS POLICY

The Company has established a Shareholder Communications Policy with the objectives of enabling shareholders to exercise their rights in an informed manner and to allow shareholders and the investment community to engage actively with the Company. The Board of Directors has the responsibility to review the Policy regularly to ensure its effectiveness. Details of the Policy can be found on the Company's website.

SHAREHOLDERS MEETING

During the year, the Company held one general meeting with shareholders, namely the Annual General Meeting, at the JW Marriott Hotel, Pacific Place, 88 Queensway, Hong Kong on 16 April 2014. The following resolutions, all voted on by polls, were passed and approved:

- receipt and adoption of the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2013;
- declaration of final dividend of HK 5 cents per share for the year ended 31 December 2013;
- re-election of Directors;
- authorising the Board to fix Directors' remuneration;
- re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2014 and authorising the Board to fix their remuneration;
- granting a general mandate to issue shares;
- granting a general mandate to buy back shares; and
- granting a specific mandate to issue shares to satisfy Awards pursuant to the 2013 Share Award Scheme.

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

SHAREHOLDERS' RIGHTS

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

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

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

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

PUBLIC FLOAT

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

MARKET CAPITALISATION

Year end	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Closing price (HK$)	3.35	3.60	4.90	12.58	3.52	5.63	5.17	3.11	4.35	5.55	3.13
Market Capitalisation (US$ mil)	539	591	976	2,550	796	1,400	1,280	772	1,083	1,382	782

FINANCIAL CALENDAR FOR 2015

Planned Date

26 February	2014 annual results announcement
17 March	2014 Annual Report
21 April	First quarter trading update
22 April	2015 Annual General Meeting
24 April	Last day of dealings in shares with entitlement to 2014 final dividend
27 April	Ex-dividend date
28 April by 4.30pm HK time	Deadline for lodging transfers for entitlement to 2014 final dividend
29 April	Book closure date & 2014 final dividend record date
12 May	2014 final dividend payment date
30 July	2015 interim results announcement
11 August	Last day of dealings in shares with entitlement to 2015 interim dividend
12 August	Ex-dividend date
13 August by 4.30pm HK time	Deadline for lodging transfers for entitlement to 2015 interim dividend
14 August	Book closure date & 2015 interim dividend record date
26 August	2015 interim dividend payment date
14 October	Third quarter trading update

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Investor Relations > Corporate Calendar

Remuneration Report

This Remuneration Report sets out the Group's remuneration policies and amounts for all staff including Executive Directors and Non-executive Directors. Pages 58 to 59 comprise the auditable part of the Remuneration Report and form an integral part of the Group's financial statements. At 31 December 2014, the Group employed a total of 363 full time, shore-based staff (2013: 372), which has since reduced to 340.

GROUP'S REMUNERATION POLICY

The Board, through the Remuneration Committee, seeks to attract and retain staff with the skills, experience and qualifications needed to manage and grow the business successfully. We achieve this by providing remuneration packages, including bonuses, that are competitive, consistent with market practice, and reward performance and align employees and shareholders' interests.

When considering remuneration adjustments and annual bonuses, the Board makes reference to the prevailing market conditions, local market practice, the levels of emolument of existing staff of the Company and, very importantly, the performance of individuals and the market demand for their skills. The business of shipping is highly cyclical. It is inappropriate to impose straight financial measures for both salary adjustments and bonus determination as to do so would likely generate meaningless results and potentially damaging consequences. The Board seeks to obtain a balance of all the above mentioned factors.

Equity awards are provided through the Company's Share Award Scheme which is designed to provide Executive Directors and other employees with long-term financial benefits that are aligned to and consistent with the creation of shareholder value as an incentive and recognition for their contribution to the Group. The Board has not granted, and currently has no intention to grant any equity awards to Independent Non-executive Directors as they administer the scheme at their sole discretion.

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

Below sets out the key components of remuneration:

Key remuneration components	Executive Directors and All staff	Non-executive Directors
Fixed base salary	Salaries are reviewed annually. Prevailing market conditions and local market practice, as well as the individual's role, duties, experience, responsibilities and performance are taken into account when assessing salaries.	No
Annual discretionary cash bonus	Bonuses are determined based on the overall performance of the individual and the Group. Bonuses for Executive Directors are assessed by the Remuneration Committee and those of all other staff are assessed by the Chief Executive Officer. Bonuses to Directors and employees are expected to be no more than 12 months' salary equivalent.	No
Long-term equity incentives	Awards typically vest annually over a three year period. New Awards for existing awardees are considered each year by the Remuneration Committee to maintain the incentive period, in which case they vest at the end of the third year.	No
Retirement benefit	In line with market practice.	No
Fixed annual director's fee	No	Yes and in line with market practice

REMUNERATION FOR THE YEARS ENDED

31 December 2014	Directors' fee US$'000	Salaries US$'000	Bonuses US$'000	Pension US$'000	Total Payable US$'000	Share-based compensation US$'000	Total payable and charged US$'000
Executive Directors							
David M. Turnbull	–	364	30	2	396	214	610
Mats H. Berglund	–	1,046	63	2	1,111	538	1,649
Andrew T. Broomhead	–	495	40	2	537	328	865
Chanakya Kocherla	–	670 [1]	38	22	730	304 [2]	1,034
Jan Rindbo [3]	–	494 [3]	–	–	494	(150) [3]	344
	–	3,069	171	28	3,268	1,234	4,502
Independent Non-executive Directors							
Patrick B. Paul	96	–	–	–	96	–	96
Robert C. Nicholson	90	–	–	–	90	–	90
Alasdair G. Morrison	83	–	–	–	83	–	83
Daniel R. Bradshaw	83	–	–	–	83	–	83
Irene Waage Basili [4]	67	–	–	–	67	–	67
	419	–	–	–	419	–	419
Total Directors' remuneration	419	3,069	171	28	3,687	1,234	4,921
Other Employees	–	38,058	4,486	2,856	45,400	4,077	49,477
Total remuneration	419	41,127	4,657	2,884	49,087	5,311	54,398

Note:

(1) Included in the salary of Mr. Kocherla is a compensation for additional tax incurred of US$178,000 due to the withdrawal of his superannuation fund upon his relocation from Australia to Hong Kong.

(2) Included in share-based compensation of Mr. Kocherla is a reimbursement of the difference between Australian income tax and Hong Kong income tax amounted to US$97,000 in relation to the restricted share awards granted to him.

(3) Mr. Rindbo resigned as an Executive Director on 7 November 2014. As a consequence, 2,163,000 share awards lapsed resulting in a credit to the income statement. His salary for the period included a director's fee of US$80,000.

(4) Mrs. Basili joined the Board as an Independent Non-executive Director on 1 May 2014.

31 December 2013	Directors' fee US$'000	Salaries US$'000	Bonuses US$'000	Pension US$'000	Total Payable US$'000	Share-based compensation US$'000	Total payable and charged US$'000
Executive Directors							
David M. Turnbull	–	364	125	2	491	213	704
Mats H. Berglund	–	1,029	650	1	1,680	709	2,389
Jan Rindbo	–	563 [1]	400	1	964	297	1,261
Andrew T. Broomhead	–	470	250	2	722	329	1,051
Chanakya Kocherla	–	494	250	63	807	199	1,006
Wang Chunlin [2]	–	348	721	70	1,139	(297) [2]	842
	–	3,268	2,396	139	5,803	1,450	7,253
Independent Non-executive Directors							
Patrick B. Paul	96	–	–	–	96	–	96
Robert C. Nicholson	90	–	–	–	90	–	90
Alasdair G. Morrison	83	–	–	–	83	–	83
Daniel R. Bradshaw	83	–	–	–	83	–	83
	352	–	–	–	352	–	352
Total Directors' remuneration	352	3,268	2,396	139	6,155	1,450	7,605
Other Employees	–	32,809	5,450	2,709	40,968	4,279	45,247
Total remuneration	352	36,077	7,846	2,848	47,123	5,729	52,852

Note:

(1) Included a director's fee of US$96,000.

(2) Mr. Wang retired as an Executive Director upon the conclusion of the 2013 AGM on 19 April 2013. As a consequence, 1,284,000 share awards lapsed resulting in a credit to the income statement.

For the year 2014, the five individuals whose emoluments were the highest in the Group were the five Executive Directors (2013: five Executive Directors).

During the year, the Group did not pay the Directors any inducement to join or upon joining the Group. No Directors waived or agreed to waive any emoluments during the year. The median salary of employees excluding the Chief Executive Officer during the year was US$62,814 (2013: US$58,000).

In the year ended 31 December 2013, certain Other Employees benefited from a profit sharing arrangement amounting to approximately US$1,029,000 and such arrangement ended thereafter. This amount combined with the total remuneration of 2013 forms the total employee benefit expenses for 2013 as presented in Note 5 to the financial statements.

ACCOUNTING POLICIES ON EMPLOYEE BENEFITS

Bonuses

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

Retirement Benefit Obligations

Mandatory Provident Fund Scheme

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

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

Other defined contribution Schemes

The Group also operates a number of defined contribution retirement schemes outside Hong Kong in accordance with local statutory requirements. The assets of these schemes are generally held in separate administered funds and are generally funded by payments from employees and by the relevant group companies. The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to contributions being fully vested.

Share-Based Compensation

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

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

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

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

Report of the Directors

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2014.

PRINCIPAL ACTIVITIES, ANALYSIS OF OPERATIONS AND FINANCIAL SUMMARY

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

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 73. Taking into consideration the Group's performance, operating cash flow and current financial position, the Directors have recommended the payment of a final dividend of HK 5 cents per share for the year ended 31 December 2014. No interim dividend was declared.

The proposed final dividend for 2014 of HK 5 cents per share will be considered at the Annual General Meeting scheduled for 22 April 2015.

RESERVES AND DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2014, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$651.2 million.

Movements in the reserves of the Group and of the Company are set out in Note 25 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$41,000.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND PRE-EMPTIVE RIGHTS

Movements in the share capital of the Company are set out in Note 24 to the financial statements. There is no provision for pre-emptive rights under the Company's Bye-laws and there is no restriction against such rights under Bermuda Law.

CONVERTIBLE BONDS

Details of the convertible bonds issued by the Group are set out in Note 23 to the financial statements.

PURCHASE, SALE OR REDEMPTION OF SECURITIES

Following the exercise of the put option right by bondholders of the Group's convertible bonds due 2016, redemption and cancellation of the bonds (having an aggregate full principal amount of US$20,400,000 together with accrued but unpaid interest thereon) was completed on 14 April 2014. The remaining outstanding aggregate principal amount of the bonds was reduced to US$209,600,000, representing 91.13% of the total principal amount of the bonds originally issued.

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

2013 SHARE AWARD SCHEME ("SAS") AND 2004 LONG TERM INCENTIVE SCHEME ("LTIS")

The LTIS adopted in 2004 expired on 14 July 2014 and was replaced by the SAS adopted by the Board on 28 February 2013, which is a single share award scheme under which no share options can be granted. The remaining 400,000 share options granted under the LTIS were exercised by the grantee in June 2014 and all other unvested awards granted under the LTIS shall remain valid until they fully vest in July 2015 or lapse in accordance with the rules of the LTIS.

Purpose and Eligible Participants of the SAS

The SAS enables the Company to grant share awards or unit awards ("Awards") to eligible participants, being principally executive Directors and employees, as an incentive and recognition for their contribution to the Group. The SAS incentivises performance of participants by linking part of their remuneration to the achievement of the Group. The value offered is related to job position and contribution to the management of the business. Since the adoption of the SAS, the Board has not granted, and currently has no intention to grant, any Awards to Independent Non-executive Directors as they administer the scheme at their sole discretion in accordance with the rules of the SAS.

Maximum Number of Shares

The total number of shares which may be or have been issued by the Company or transferred to the trustee of the SAS in satisfaction of the Awards granted under the SAS must not, in aggregate, exceed 10% of the issued share capital of the Company as at the first date of each financial year during the term of the SAS (equivalent to 193,697,711 shares as at 1 January 2015). There were 23,357,000 unvested restricted awards under the SAS and LTIS which represents 1.21% of the issued share capital of the Company as at 26 February 2015.

Vesting of Awards

Awards typically vest annually over a three year period. New Awards for existing awardees are considered each year by the Remuneration Committee to maintain the incentive period, in which case they vest at the end of the third year.

Limit for Each Eligible Participant

The maximum number of shares which may be subject to an Award or Awards at any one time shall not in aggregate exceed (i) 1% of the issued share capital of the Company as at the first date of the relevant financial year of the Company for any specific eligible participant; and (ii) 0.1% of the issued share capital of the Company as at the first date of the relevant financial year of the Company for any Independent Non-executive Director.

New Shares to be issued

Apart from the Awards which are to be purchased from the market for the connected persons of the Company, the number of shares to satisfy Awards granted (if comprising of new shares) could be allotted and issued by the Board by utilising the general mandate granted to them by shareholders. The Company will apply to the Stock Exchange for permission to list and to deal in those new shares to be issued as soon as practicable after any grant of Awards.

Procedure of Granting Restricted Awards

The Board entered into a trust deed to appoint a trustee to administer Awards under the SAS and to constitute a trust to hold property transferred by the Company to the trustee (which shall include cash or shares) in order to satisfy grants of Awards. At the direction of the Board, the trustee shall either subscribe for new shares at the relevant benchmarked price as stipulated in the Listing Rules from the Company or acquire existing shares in the market in accordance with the rules of the SAS. The Remuneration Committee administers and oversees the SAS. Their review and approval is required prior to the granting of Awards to any staff members of the Group.

Life of the Schemes

The SAS has an effective term of 10 years from 28 February 2013 which replaces the LTIS expired in July 2014.

Awards Granted

Details of the grant of long-term incentives and the movements of the outstanding incentives during the year ended 31 December 2014 under both the SAS and the LTIS on a combined basis are as follows:

(i) History and Movement of Restricted Awards Granted

'000 shares/units	Date of first award	Total awarded	Vested to date	At 31 Dec 2014	At 1 Jan 2014	Granted during the period	Vested[2] or lapsed	Vesting in July of 2015	2016	2017
Directors										
David M. Turnbull	5-Aug-08	2,407	(1,315)	1,092	1,097	347	(352)	300	445	347
Mats H. Berglund	1-Jun-12	4,198	(1,752)	2,446	2,607	715	(876)	876	855	715
Andrew T. Broomhead	11-May-07	3,307	(1,540)	1,767	1,691	453	(377)	764	550	453
Chanakya Kocherla	11-May-07	2,199	(1,028)	1,171	1,095	333	(257)	428	410	333
Jan Rindbo (resigned)[1]	11-May-07	4,778	(2,615)	–	2,109	557	(2,666)	–	–	–
		16,889	(8,250)	6,476	8,599	2,405	(4,528)	2,368	2,260	1,848
Other Employees				17,064	19,211	5,735	(7,882)	6,956	5,992	4,116
				23,540	27,810	8,140	(12,410)	9,324	8,252	5,964

Notes:

(1) Mr. Rindbo resigned as an Executive Director and Chief Operating Officer with effect from 7 November 2014 and the restricted awards of 2,163,000 shares lapsed upon his resignation.

(2) 833,000 shares vested due to termination of employment of seven employees and 423,000 shares vested due to the retirement of three employees. 1,682,000 shares lapsed following resignation of three employees.

The closing price of the shares of the Company immediately before the grant of 7,273,000 restricted awards on 5 May 2014 was HK$4.45 and before the grant of 867,000 restricted awards on 13 August 2014 was HK$4.69.

(ii) Share Options and Share Valuation under the LTIS

Share options were granted on 14 July 2004 under the LTIS at an exercise price of HK$2.50 per share. The remaining 400,000 fully vested share options of Other Employees were exercised in June 2014.

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

DIRECTORS

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

	Date of appointment to:					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Terms of appointment
Executive Directors						
David M. Turnbull	17 May 2006	–	–	–	1 July 2008	3 years until 2017 AGM
Mats H. Berglund	1 June 2012	–	–	–	1 June 2012	3 years until 2015 AGM
Andrew T. Broomhead	1 September 2010	–	–	–	1 January 2010	3 years until 2016 AGM
Chanakya Kocherla	25 June 2012	–	–	–	25 June 2012	3 years until 2015 AGM
Jan Rindbo (resigned)	1 April 2007	–	–	–	23 January 2008	Resigned on 7 November 2014
Independent Non-executive Directors						
Patrick B. Paul	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2015 AGM
Robert C. Nicholson	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2016 AGM
Alasdair G. Morrison	1 January 2008	1 January 2008	1 January 2008	1 January 2008	–	3 years until 2015 AGM
Daniel R. Bradshaw	7 April 2006	7 April 2006	7 April 2006	7 April 2006	–	3 years until 2017 AGM
Irene Waage Basili	1 May 2014	1 May 2014	1 May 2014	1 May 2014	–	3 years until 2017 AGM

Notes:

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

Mrs. Irene Waage Basili, an Independent Non-executive Director of the Company appointed by the Board during the year, shall retire at the 2015 Annual General Meeting in accordance with the Company's Bye-law 86(2). In addition, Messrs. Mats H. Berglund, Chanakya Kocherla, Patrick B. Paul and Alasdair G. Morrison shall retire at the 2015 AGM by rotation pursuant to the Company's Bye-laws 87(1) & (2), All retiring Directors, being eligible, offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming 2015 AGM has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

BIOGRAPHICAL DETAILS OF DIRECTORS

Brief biographical details of Directors are set out in the "Our Directors" section of this Annual Report.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 31 December 2014, the discloseable interests and short positions of each Director and the Chief Executive in shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, or (b) were required to be entered in the register maintained by the Company under Section 352 of the SFO, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers were as follows:

Name of Director	Personal interest	Corporate or Family interests/ Trust & similar interests	Long/ Short position	Number of underlying Shares under equity derivatives	Total Share interests	Approximate percentage of the issued share capital of the Company 31 Dec 2014	31 Dec 2013
David M. Turnbull [1]	1,906,000	3,662,682 [2]	Long	–	5,568,682	0.29%	0.27%
Mats H. Berglund [1]	4,198,000	–	Long	–	4,198,000	0.22%	0.20%
Andrew T. Broomhead [1]	2,448,000	2,328,068 [3]	Long	–	4,776,068	0.25%	0.22%
Chanakya Kocherla [1]	2,721,667	–	Long	–	2,721,667	0.14%	0.12%
Patrick B. Paul	120,000	–	Long	–	120,000	less than 0.01%	less than 0.01%
Daniel R. Bradshaw	–	386,417 [4]	Long	–	386,417	0.02%	0.02%

Notes:

(1) Restricted awards granted under the 2013 Share Award Scheme and the Long Term Incentive Scheme have been disclosed on page 61 of this Report.

(2) 3,662,682 shares are in the form of convertible bonds due 2016 at nominal value of US$3,350,000 and are held by a Trust named Bentley Trust (Malta) Limited, of which Mr. Turnbull is the founder.

(3) 2,328,068 shares are held via Paulatim Investments Limited which is jointly owned by Mr. Broomhead and his wife, of which 1,312,005 shares are in the form of convertible bonds due 2016 at nominal value of US$1,200,000 and 320,359 shares are in the form of convertible bonds due 2018 at nominal value of US$200,000.

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

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2014.

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2014, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name	Capacity/ Nature of interest	Long/ Short Position	Number of Shares	Approximate percentage of the issued share capital of the Company 31 Dec 2014	31 Dec 2013
Aberdeen Asset Management Plc and its Associates (together the "Group") on behalf of accounts managed by the Group	Investment manager	Long	348,899,000	18.01%	15.87%
Michael Hagn	Interest in corporation controlled	Long	252,703,500	13.05%	13.05%
Mondrian Investment Partners Limited	Investment manager	Long	117,091,000	6.05%	5.98%

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2014, no other person (other than a Director or Chief Executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

CONNECTED TRANSACTION

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

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

Throughout the year, the Company has been fully compliant with all code provisions of the Corporate Governance Code as contained in Appendix 14 of the Listing Rules. Please also refer to the Corporate Governance Report of this Annual Report.

AUDIT AND REMUNERATION COMMITTEES

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

AUDITORS

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment at the forthcoming 2015 AGM.

PUBLIC FLOAT

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

By Order of the Board

Kitty Mok

Mok Kit Ting, Kitty

Company Secretary

Hong Kong, 26 February 2015

Investor Relations

We are committed to ensuring that the investment community and our other stakeholders are provided relevant information about Pacific Basin on a regular basis, so that they have a comprehensive picture of our business, our performance and our prospects with which to assess the value of the Company.

In 2014, we received 13 Investor Relations and Corporate Governance awards. Our 2013 Annual Report was ranked 15th globally by e.com (report watch). Our Online Annual Report received its first recognition with a Silver Award from the League of American Communications Professionals' 2013 Vision Awards Annual Report Competition.

www.pacificbasin.com
About Us > Corporate Responsibilities > Corporate Governance > Shareholders/ Communication
Our Shareholder Communication Policy is available on our website and is regularly reviewed to ensure its effectiveness

Stakeholder Engagement

We proactively engage with a broad range of institutional and retail investors as well as media and other interest groups.

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

Financial Reporting

- Annual and Interim Reports
- Online Annual Report
- Voluntary quarterly trading updates
- Press releases on business activities

www.pacificbasin.com/ar2014
Our 2014 Interactive online report and feedback form

Shareholder Meetings And Hotlines

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

Vessel Tours

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

Investor Perception Studies

We conduct an annual consultation of investors and analysts for views on our group strategy, executive management, Annual Report and our corporate communications, investor relations and CSR programmes by way of telephone and online surveys

Social Media Communications

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

Company Website – www.pacificbasin.com

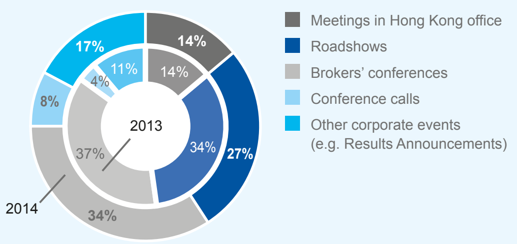
Our corporate website is considered our primary communication medium covering the entire range of Pacific Basin's activities. English, Chinese (Traditional and Simplified) and Japanese versions of the site are available covering:

- Profiles of Group's business
- Fleet profile
- Board and senior management biographical data
- Corporate Governance, Risk Management and CSR
- Board Committee's Terms of Reference
- Financial information and excel downloads
- Press kits
- Career opportunities

ROADSHOWS – Roadshows are conducted every quarter following earnings results announcements and trading updates. In 2014, we met investors in 13 cities in North America, Europe and Asia-Pacific.

INVESTOR MEETINGS – In 2014, we met 691 (2013: 558) shareholders and investors

Type of Investor Meetings



Stakeholder Engagement continued

COMMUNICATIONS WITH SELL-SIDE ANALYSTS – We encourage active analyst coverage to help investors evaluate the Company and its opportunities and challenges. Analysts' briefings, meetings and conference calls are arranged with management from time to time, usually after results announcements. A significant number of key brokers publish reports on the Company.

Following the Annual Results announcement, we talked to the investor community sharing our published information and helped to enhance investors' understanding of our business model and the factors driving the valuation of the Company.

We held our 2014 Analyst Day in May at our Hong Kong headquarters. In an open dialogue between analysts and management, we shared our views on the industry, important accounting considerations, and reviewed Company developments described in the 2013 Annual Report and 2014 first quarter trading update. We invited our Chief Operating Officer and Head of Asset Management to share their views on the dry bulk market.

www.pacificbasin.com
Investor Relations > Financial Disclosure
Analyst Day Presentation

Investor relations > Share Information > Research Coverage
Contact details of the Analysts

KPIs measuring Investor Relations Performance KPI

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

Sell-Side Analyst Engagement – Analyst coverage (as measured by the number of active research reports covering Pacific Basin) in the trailing six month period is a key measure of our profile in the shipping sector.

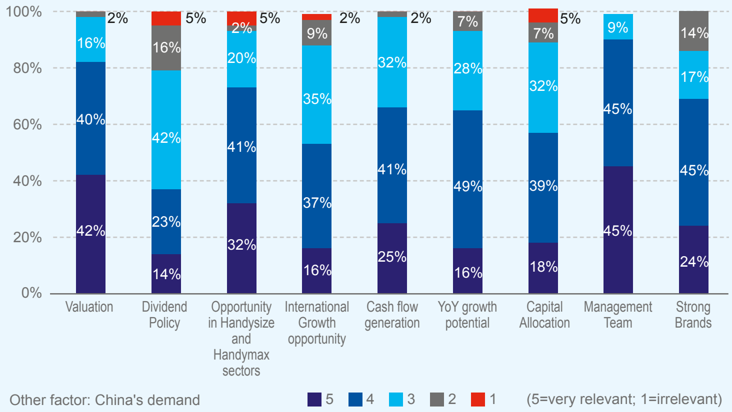
Number of Investors We Meet

17 brokerages
covered Pacific Basin in 2014 (2013: 21)

>125 research reports
on Pacific Basin in 2014 (2013: >120)

22 analysts
attended our 2014 Analyst Day (2013: 19)

Feedback extracted from the 2014 Investor Perception Study
Compelling Factors for investing in Pacific Basin



Investor Perception Studies are conducted annually to gauge feedback on of our Annual Report, Investor Relations programme, corporate governance and group strategy.

As we found in 2013, investors still consider the quality of our management team, valuation of our stock, and the investment opportunity in the Handysize and Handymax sectors to be the most compelling reasons to invest in Pacific Basin.

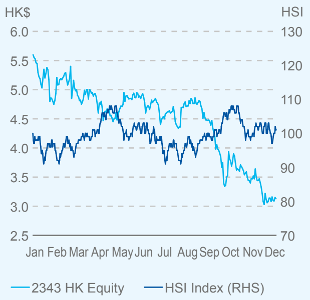
Share and Convertible Bond Information

As at 31 December 2014, the Shares and Convertible Bonds of the Company were as follows:

- 1,936,577,119 ordinary shares in issue, each with a par value of US$0.10
- US$210 million of 1.75% coupon Convertible Bonds due 2016
- US$124 million of 1.875% coupon Convertible Bonds due 2018

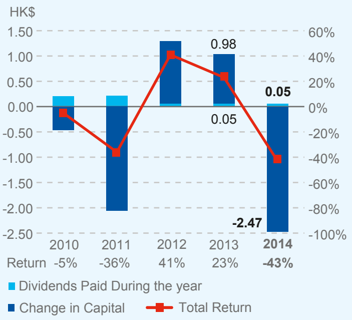
www.pacificbasin.com
Investor Relations > Share Information
Dividend History

Our Share Price Performance vs Hang Seng Index in 2014

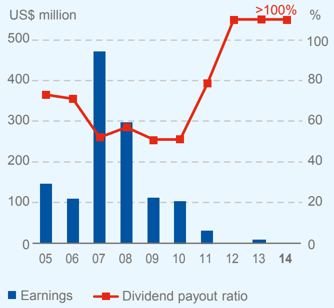


Convertible Bonds Price Performance in 2014

Total Shareholders' Return



Net Profit and Dividend Payout Ratio since 2005



DIVIDEND

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

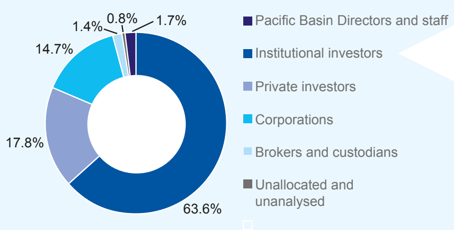
OUR SHAREHOLDERS

As at 31 December 2014, Nasdaq OMX was able to analyse the ownership of about 99.2% of the Company's share capital. Institutional investors still accounted for the largest portion of the Company's shareholder base, owning nearly 1.2 billion shares or 63.6% of our share capital.

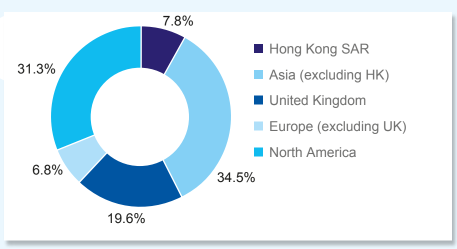
We had 1,457 registered shareholders as at 31 December 2014. The actual number of investors interested in our shares is likely to be greater, as some of their shares are held through nominees, investment funds, custodians, etc.. Each custodian or nominee or broker is considered as a single shareholder as below.

Shareholding	No. of Shareholders	% of Shareholders	Total Holding	% of Issued Share Capital
<=500	18	1.2%	638	0.0%
501-1000	44	3.0%	43,468	0.0%
1001-100,000	649	44.5%	28,665,741	1.5%
100,001-500,000	499	34.3%	108,838,708	5.6%
>=500,001	247	17.0%	1,799,428,864	92.9%
Total	**1,457**	**100.0%**	**1,936,977,119**	**100.0%**

Ownership by Type of Shareholders



Geographical Distribution of our Institutional Investors



OUR BONDHOLDERS

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

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Financial Statements
Note 23(c)
Terms and details of the Convertible Bonds

No distinction between institutional investors and retail investors

We listen carefully to the views and feedback we receive from all investors. More than 66% of our shareholders are institutional investors, while 17% are private or retail investors who hold our shares through brokers and custodians. A separate Q&A and dialogue with our Board of Directors is arranged at our Annual General Meeting.

Key concerns raised by investors

In 2014, issues and major concerns about the Company included:

- the outlook for the dry bulk sector (demand side in particular)
- future capex plan and loan repayment profile
- cost of Handysize and Handymax fleet and chartered-in costs
- the challenging outlook for our towage business
- any further impairment in the towage business

News and Achievements

2014

JAN
- Dubai office established

FEB
- Corporate Governance Asia Excellence Awards 2014
  – Best Investor Relations by Company (HK)

MARCH
- Appointment of new INED, Irene Waage Basili – our first female board member

APR
- HK Marine Department Award for Outstanding Performance in Port State Control Inspections in 2013
- Secured US$350 million Japanese export credit financing for 18 bulk carriers

MAY
- BIMCO Shipping Company of the Year Award

- External appreciation for outstanding performance of Astoria Bay in Port Angeles, USA

JUL
- 10th Anniversary of listing on HK Stock Exchange

AUG
- 2013 Vision Awards Annual Report Competition
  – Silver Award in Media & Services Category
- Communicate Magazine – Corporate Awards 2014
  – Silver Award in Best printed report (International category)
- e.com Report Watch Top 400 Global Annual Reports
  – ranked 15th globally, 2nd in HK, A rating
- Institutional Investor Magazine 2014 All-Asia Executive Team
  – Best Investor Relations Program: Second Place (Industrials, Buy Side)
  – Best CEO: Second Place – Mats Berglund (Industrials, Buy Side)
  – Best CFO: Second Place – Andrew Broomhead (Industrials, Buy Side)

SEP
- 2014 International ARC Awards
  – Gold Winner in Interactive Annual Report (Shipping Services)

OCT
- Lloyd's List Global Awards 2014 – Safety Award
- Lloyd's List Asia Awards 2014 – Best Ship Operator

- Best of Asia 2014 Corporate Governance Awards
  – Asia Icon in Corporate Governance
  – Asia Corporate Director of the Year – Mats Berglund

NOV
- IBJ Awards 2014 – Award for Safety in Bulk Handling (Marine)

DEC
- The Asset Corporate Award 2014 – Platinum Award

- Corporate Governance Asia Awards 2014 Company Secretary of the Year – Kitty Mok
- IR Magazine Awards 2014
  – Certificate of Excellence for Investor Relations
- Carbon Footprint Repository for Listed Companies in Hong Kong – Certificate of Commendation

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Financial Statements

Group Performance Review

US$ Million	2014	2013	Change
Revenue	1,718.5	1,708.8	+1%
Cost of services	(1,758.1)	(1,653.7)	-6%
Gross (loss)/profit	(39.6)	55.1	-172%
Segment net (loss)/profit	(45.9)	36.0	-228%
Treasury	–	(4.4)	+100%
Discontinued operations – RoRo	(0.2)	(0.5)	+60%
Indirect general and administrative expenses	(9.4)	(15.5)	+40%
Underlying (loss)/profit	(55.5)	15.6	-456%
Sale of harbour towage and OMSA JV	(7.6)	–	
Towage exchange (loss)/gain	(12.7)	5.1	
Provision for onerous contracts	(100.9)	(0.7)	
Towage impairments and provisions	(70.5)	–	
Unrealised derivative (expenses)/income	(28.9)	1.8	
RoRo exchange loss	(5.0)	(7.8)	
Other impairments and provisions	(3.9)	2.8	
Expenses relating to exercising 10 finance lease purchase options	–	(15.3)	
(Loss)/profit attributable to shareholders	(285.0)	1.5	>-100%
EBITDA	82.2	118.2	-30%
Net profit margin	-17%	0%	-17%
Return on average equity employed	-23%	0%	-23%

The main drivers of our results in 2014 were as follows:

- Revenue grew by 1% mainly due to 7% and 9% increases in our total Handysize and Handymax revenue days respectively, offset by decreases in our daily charter rates
- Cost of services grew 6% mainly due to increases in vessel operating costs attributable to the growth of our dry bulk fleet
- Indirect general and administrative expenses decreased mainly due to one-off wind-down costs of certain non-core operations in 2013
- Segment and underlying results turned to net losses mainly due to both a weak dry bulk market and weak towage results
- losses of US$7.6 million from the disposals of both our harbour towage business and OMSA and their related non-cash exchange losses of US$12.7 million
- a non-cash provision of US$100.9 million for inward chartered vessels contracts
- non-cash Towage vessel impairments and provisions of US$70.5 million
- an unrealised derivative charge of US$28.9 million from a reduction in average oil prices affecting our bunker fuel swap contracts

EBITDA amounted to US$82.2 million (2013: US$118.2 million) contributing to a positive operating cash flow

Cash and deposits at the year end of US$363.4 million (2013: US$486.1 million)

Segment Net Profit

US$ Million	2014	2013
Pacific Basin Dry Bulk	(30.0)	26.1
PB Towage	(15.1)	10.5
All other segments	(0.8)	(0.6)
Segment net (loss)/profit	(45.9)	36.0

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Page 29

Segments
Management analyses the Group's performance in two reporting segments:

- Pacific Basin Dry Bulk
- PB Towage

Non-segment activities mainly comprise:

- Treasury
- PB RoRo, discontinued in September 2012

Underlying Profit
Includes:

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

Excludes:

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

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Financial Statements Note 4
Segment Information

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Financial Statements Note 5
General and administrative expenses and other expenses

Consolidated Balance Sheet

	Note	As at 31 December 2014 US$'000	2013 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	1,584,924	1,622,297
Investment properties	7	2,605	2,675
Land use rights	8	2,894	2,971
Goodwill	9	25,256	25,256
Interests in joint ventures	11(a)	682	26,650
Investments in associates	12	–	1,332
Available-for-sale financial assets	13	4,126	4,894
Derivative assets	14	46	13,175
Trade and other receivables	15	8,936	65,975
Restricted bank deposits	16	89	1,269
Other non-current assets	17	–	5,917
		1,629,558	1,772,411
Current assets			
Inventories	18	79,524	104,006
Derivative assets	14	3,670	2,238
Assets held for sale	19	5,749	–
Trade and other receivables	15	225,679	142,374
Restricted bank deposits	16	1,605	1,593
Cash and deposits	16	361,731	483,200
		677,958	733,411
Assets of discontinued operations classified as held for sale	21(a)	–	31,624
		677,958	765,035
Total assets	4(b)	2,307,516	2,537,446
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	24	191,781	193,237
Retained profits	25	231,086	526,582
Other reserves	25	578,879	584,475
Total equity		1,001,746	1,304,294

	Note	As at 31 December 2014 US$'000	2013 US$'000
LIABILITIES			
Non-current liabilities			
Derivative liabilities	14	**22,326**	18,779
Long-term borrowings	23	**820,645**	708,660
Provision for onerous contracts	22	**79,582**	–
		922,553	727,439
Current liabilities			
Derivative liabilities	14	**23,524**	4,580
Trade and other payables	20	**157,698**	166,475
Current portion of long-term borrowings	23	**179,099**	328,565
Taxation payable		**1,572**	1,985
Provision for onerous contracts	22	**21,324**	656
		383,217	502,261
Liabilities of discontinued operations classified as held for sale	21(a)	**–**	3,452
		383,217	505,713
Total liabilities	4(b)	**1,305,770**	1,233,152
Net current assets		**294,741**	259,322
Total assets less current liabilities		**1,924,299**	2,031,733

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Financial Statements Note 4(b)
Detailed balance sheet segment information

Approved by the Board of Directors on 26 February 2015

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Balance Sheet of the Company

	Note	As at 31 December 2014 US$'000	2013 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries	10	**1,319,283**	828,853
Current assets			
Prepayments and other receivables		**73**	140
Amounts due from subsidiaries	10	**138,445**	642,136
Cash and cash equivalents	16	**29**	23
		138,547	642,299
Total assets		**1,457,830**	1,471,152
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	24	**191,781**	193,237
Retained profits	25	**651,206**	666,548
Other reserves	25	**599,731**	596,322
Total equity		**1,442,718**	1,456,107
LIABILITIES			
Current liabilities			
Accruals and other payables		**343**	117
Amounts due to subsidiaries	10	**14,769**	14,928
Total liabilities		**15,112**	15,045
Net current assets		**123,435**	627,254
Total assets less current liabilities		**1,442,718**	1,456,107

Approved by the Board of Directors on 26 February 2015

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Consolidated Income Statement

	Note	For the year ended 31 December **2014** **US$'000**	 2013 US$'000
Continuing operations			
Revenue	4(a)	**1,718,454**	1,708,792
Cost of services (Footnote a)	4(a)	**(1,758,078)**	(1,653,695)
Gross (loss)/profit		**(39,624)**	55,097
General and administrative expenses (Footnote a)	4(a)	**(9,353)**	(17,558)
Vessel impairment and provision (Footnote a)	4(a)	**(161,301)**	(656)
Other income and gains	26	**6,209**	8,735
Other expenses (Footnote a)		**(32,000)**	(3,719)
Finance income	27	**10,789**	14,679
Finance costs	27	**(43,552)**	(52,122)
Share of profits less losses/impairment of joint ventures	11(a)	**(8,193)**	5,028
Share of profits less losses/impairment of associates	12	**(1,500)**	1,542
(Loss)/profit before taxation		**(278,525)**	11,026
Taxation	28	**(1,217)**	(1,168)
(Loss)/profit for the year		**(279,742)**	9,858
Discontinued operations			
Loss for the year	21(b)	**(5,222)**	(8,335)
(Loss)/profit attributable to shareholders		**(284,964)**	1,523
Dividends	29	**12,489**	12,490
Basic and diluted earnings per share for (loss)/profit attributable to shareholders (in US cents)	30		
From continuing operations		**(14.66)**	0.51
From discontinued operations		**(0.27)**	(0.43)
From (loss)/profit attributable to shareholders		**(14.93)**	0.08

Footnote a:
The sum of i) cost of services, ii) general and administrative expenses, iii) vessel impairment and provision, and iv) other expenses is analysed in Note 5 "Expenses by Nature".

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Financial Statements Note 4(a)
Detailed income statement segment information

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2014 US$'000	2013 US$'000
(Loss)/profit attributable to shareholders	**(284,964)**	1,523
Other comprehensive income – items that may be reclassified to income statement:		
Cash flow hedges:		
– fair value (losses)/gains	**(23,564)**	7,126
– transferred to finance costs in income statement	**8,485**	4,569
Release of exchange loss/(gain) from reserves to income statement for foreign operations upon:		
– disposal of harbour towage business	**9,312**	–
– disposal of a RoRo vessel (Note 21(c))	**5,022**	8,331
– disposal of OMSA JV	**4,374**	–
– repayment of shareholder loans by subsidiaries	**(1,015)**	(5,146)
Currency translation differences	**(7,986)**	(31,113)
Fair value (losses)/gains on available-for-sale financial assets	**(768)**	165
Total comprehensive income attributable to shareholders	**(291,104)**	(14,545)

Consolidated Statement of Changes in Equity

		For the year ended 31 December	
	Note	**2014 US$'000**	2013 US$'000
Balance at 1 January		**1,304,294**	1,332,021
Total comprehensive income attributable to shareholders		**(291,104)**	(14,545)
Dividends paid	29	**(12,385)**	(12,397)
Shares purchased by trustee of the SAS	24	**(3,483)**	(6,514)
Share-based compensation		**5,311**	5,729
Derecognition of equity component upon exercise of CB put options		**(1,015)**	–
Shares issued upon exercise of share options	24, 25	**128**	–
Balance at 31 December		**1,001,746**	1,304,294

Consolidated Cash Flow Statement

	Note	For the year ended 31 December 2014 US$'000	2013 US$'000
Operating activities			
Cash generated from operations	31(a)	**95,146**	99,593
Hong Kong profits tax paid		**(720)**	(664)
Overseas taxation paid		**(774)**	(787)
Net cash generated from operating activities		**93,652**	98,142
Investing activities			
Purchase of property, plant and equipment		**(194,472)**	(458,360)
Disposal of property, plant and equipment		**2,631**	3,133
Disposal of RoRo vessels		**70,552**	54,920
Payment for other non-current assets		**–**	(5,917)
(Increase)/decrease in term deposits		**(30,000)**	167,616
Decrease in restricted bank deposits		**1,168**	117,473
Dividends received from a joint venture		**9,930**	9,585
Disposal of a joint venture	31(b)	**3,295**	–
Purchase of a joint venture		**–**	(17,999)
Loan repayment received from joint ventures		**–**	205
Interest received		**4,014**	7,328
Receipt of finance lease receivables – capital element		**1,199**	5,175
Disposal of notes receivable and structured notes		**–**	15,000
Purchase of notes receivable and structured notes		**–**	(15,000)
Disposal of subsidiaries	31(b)	**–**	2,655
Net cash used in investing activities		**(131,683)**	(114,186)
Financing activities			
Drawdown of bank loans		**109,407**	287,491
Repayment of bank loans		**(146,820)**	(59,071)
Interest and other finance charges paid		**(34,304)**	(44,272)
Payment for repurchase of convertible bonds	23(c)	**(20,400)**	–
Dividends paid to shareholders of the Company		**(12,385)**	(12,397)
Repayment of finance lease liabilities – capital element		**(4,680)**	(128,464)
Payment for shares purchased by trustee of the LTIS & SAS	24	**(3,483)**	(6,514)
Proceeds from shares issued upon exercise of share options		**129**	–
Net cash (used in)/generated from financing activities		**(112,536)**	36,773
Net (decrease)/increase in cash and cash equivalents		**(150,567)**	20,729
Cash and cash equivalents at 1 January		**408,200**	390,502
Exchange losses on cash and cash equivalents		**(902)**	(3,031)
Cash and cash equivalents at 31 December	16	**256,731**	408,200
Term deposits at 31 December	16	**105,000**	75,000
Cash and deposits at 31 December	16	**361,731**	483,200

Notes to the Financial Statements

1 INTRODUCTION

1.1 General information

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

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

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

These financial statements have been approved for issue by the Board of Directors on 26 February 2015.

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Business Review
Dry Bulk Market Review 2014

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Corporate Information
Registered Office Address

1.2 Presentation of the notes to the financial statements

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

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

Principal Accounting Policies

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

Critical Accounting Estimates and Judgements

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

Disclosure of financial risk management has been integrated into the Risk Management Section of the Annual Report. The auditable parts have been clearly marked and are listed below:

- Market Risks – Page 14
- Credit & Counterparty Risk – Page 15
- Liquidity Risk – Page 18
- Capital Management Risk – Page 18

2 BASIS OF PREPARATION

2.1 Objective and accounting standards

The objective of these consolidated financial statements is to present and explain the results of the year ended 31 December 2014 and the financial position of the Group on that date, together with comparative information.

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

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

2.2 Impact of new accounting policies

The following amendments to standard are mandatory for the accounting period beginning 1 January 2014 and are relevant to the Group's operation.

HKAS 32 (Amendments)	Financial instruments: presentation
HKAS 36 (Amendments)	Impairment of assets

The adoption of these amendments to standard does not result in any substantial change to the Group's accounting policies, although there are additional disclosures in respect of these new amendments.

Certain new and amended standards, and improvements to HKFRS ("New Standards") are mandatory for accounting period beginning after 1 January 2015. The Group was not required to adopt these New Standards in the financial statements for the year ended 31 December 2014. Such New Standards that are relevant to the Group's operation are as follows:

HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HKAS 1 (Amendments)	Disclosure initiative
HKAS 16 and 38 (Amendments)	Clarification of acceptable methods of depreciation and amortisation
HKAS 28, HKFRS 10 and 12 (Amendments)	Investment entities: applying the consolidation exception
HKFRS 11 (Amendments)	Acquisitions of interests in joint operations
Annual improvement 2012, 2013 and 2014	

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

2.3 Accounting policies navigator

Accounting policies	Location
Assets held for sale and discontinued operations	Note 19
Available-for-sale financial assets	Note 13
Borrowings	Note 23
Cash and cash equivalents	Note 16
Consolidation	
Associates	Note 12
Joint ventures	Note 11(a)
Joint operation	Note 11(b)
Subsidiaries	Note 10
Contingent liabilities and contingent assets	Note 36
Convertible bonds	Note 23(c)
Current and deferred income tax	Note 28
Derivative financial instruments and hedging activities: i) cash flow hedges, and ii) derivatives not qualifying for hedge accounting	Note 14
Dividends	Note 29
Employee benefits	Remuneration Report (P.59)
Finance leases where the Group is the lessee	Note 23(b)
Financial assets at fair value through profit or loss	Note 14
Financial guarantee contracts	Note 35
Foreign currency translation	Note 2.4
Goodwill	Note 9
Impairment of investments in subsidiaries, joint ventures and associates, non-financial assets, available-for-sale financial assets and trade and other receivables	Note 5
Inventories	Note 18
Investment properties	Note 7
Land use rights	Note 8
Loans and receivables	Note 15
Offsetting financial instruments	Note 14
Operating leases where the Group is the lessor or lessee	Note 32(b)
Property, plant and equipment ("PP&E") including: i) vessels and vessel component costs, ii) vessels under construction, iii) borrowing costs, iv) other property, plant and equipment, v) subsequent expenditure, vi) depreciation, vii) residual value and useful lives, and viii) gains or losses on disposal	Note 6
Provisions	Note 2.5
Provision for onerous contracts	Note 22
Revenue recognition for freight and charter-hire, and other revenue	Note 4
Segment reporting	Note 4
Share capital	Note 24
Trade and other receivables	Note 15
Trade payables	Note 20

The Group's principal accounting policies have been consistently applied to each of the years presented in these financial statements.

Notes to the Financial Statements continued

2 BASIS OF PREPARATION (CONTINUED)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency at the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in "direct overheads" or "general and administrative expenses" of the income statement, except when deferred in equity as qualifying cash flow hedges.

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

(c) Group companies

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

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

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

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

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

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

2.5 Provisions

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

Critical Accounting Estimates and Judgements	Location
(a) Residual values of property, plant and equipment	Note 6
(b) Useful lives of vessels and vessel component costs	Note 6
(c) Impairment of vessels and vessels under construction	Note 6
(d) Impairment of goodwill	Note 9
(e) Provision for onerous contracts	Note 22
(f) Income taxes	Note 28
(g) Classification of leases	Note 32(b)

4 SEGMENT INFORMATION

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

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

"Treasury" manages the Group's cash and borrowings.

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

Accounting policy – Segment reporting

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

Accounting policy – Revenue recognition

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

(i) Freight and charter-hire

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

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

(ii) Other revenue

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

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

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

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

Notes to the Financial Statements continued

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Pacific Basin Dry Bulk
See details of our Pacific Basin Dry Bulk KPIs

4 SEGMENT INFORMATION (CONTINUED)

(a) Income statement segment information

For the year ended 31 December 2014 US$'000	Pacific Basin Dry Bulk	PB Towage	All Other Segments	Total Segments	Unallocated			Total	Reclass-ification	Per Financial Statements
					Treasury	PB RoRo	Others			
Continuing operations										
Revenue	1,633,293	80,937	331	1,714,561	–	–	219	1,714,780	3,674	1,718,454
Freight and charter-hire	1,633,293[1]	77,338	–	1,710,631	–	–	219[1]	1,710,850	3,674[1]	1,714,524
Maritime management services	–	3,599	331	3,930	–	–	–	3,930	–	3,930
Bunker & port disbursements	(862,865)[2]	(6,046)	–	(868,911)	–	–	(30,687)[2]	(899,598)	899,598[2]	–
Time charter equivalent earnings	770,428									
Cost of services	(767,023)	(90,795)	–	(857,818)	–	–	–	(857,818)	(900,260)	(1,758,078)
Bunker & port disbursements	–	–	–	–	–	–	–	–	(899,598)[2]	(899,598)
Charter-hire expenses for vessels	(499,592)	(10,077)[4]	–	(509,669)	–	–	–	(509,669)	(662)[4]	(510,331)
Vessel operating costs	(127,618)	(53,672)	–	(181,290)	–	–	–	(181,290)	–	(181,290)
Depreciation of vessels	(90,584)	(9,880)	–	(100,464)	–	–	–	(100,464)	–	(100,464)
Direct overheads	(49,229)	(17,166)	–	(66,395)	–	–	–	(66,395)	–	(66,395)
Gross (loss)/profit	3,405	(15,904)	331	(12,168)	–	–	(30,468)	(42,636)	3,012	(39,624)
General and administrative expenses	–	–	–	–	–	–	(9,353)[3]	(9,353)	–	(9,353)
Vessel impairment and provision	–	–	–	–	–	–	(171,376)[5]	(171,376)	10,075[6]	(161,301)
Other income and expenses	–	–	–	–	–	–	(22,779)[7]	(22,779)	(3,012)[1,4]	(25,791)
Finance costs, net	(33,441)	(1,004)	–	(34,445)	–	–	1,682[8]	(32,763)	–	(32,763)
Share of profits less losses/ impairment of joint ventures	–	1,882	–	1,882	–	–	–	1,882	(10,075)[6]	(8,193)
Share of profits less losses/ impairment of associates	–	–	–	–	–	–	(1,500)	(1,500)	–	(1,500)
(Loss)/profit before taxation	(30,036)	(15,026)	331	(44,731)	–	–	(233,794)	(278,525)	–	(278,525)
Taxation	–	(110)	(1,107)	(1,217)	–	–	–	(1,217)	–	(1,217)
Loss for the year	(30,036)	(15,136)	(776)	(45,948)	–	–	(233,794)	(279,742)	–	(279,742)
Discontinued operations										
Loss for the year	–	–	–	–	–	(200)	(5,022)[9]	(5,222)	–	(5,222)
Loss attributable to shareholders	(30,036)	(15,136)	(776)	(45,948)	–	(200)	(238,816)	(284,964)	–	(284,964)

Notes:

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

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

(3) "Unallocated Others" represents mainly corporate overheads.

(4) Provision utilisation of the portion of Towage charter contracts which lapsed during the year ended 31 December 2014 is allocated under "PB Towage" For the presentation of the financial statements, the above is reclassified to other income.

(5) "Unallocated Others" represents the non-cash provision for onerous contracts of US$100.9 million, and non-cash impairment charges for i) PB Towage vessels of US$58.9 million, ii) PB Towage interest in its joint ventures of US$10.1 million and iii) other provisions of US$1.5 million. These provision and impairments are not allocated to the Pacific Basin Dry Bulk and PB Towage segment results as these do not relate to the underlying operations of the segments. The related vessels, interest in joint ventures and liabilities are under "Pacific Basin Dry Bulk" and "PB Towage".

For the year ended 31 December 2013 US$'000	Pacific Basin Dry Bulk	PB Towage	All Other Segments	Total Segments	Unallocated Treasury	Unallocated PB RoRo	Unallocated Others	Total	Reclass-ification	Per Financial Statements
Continuing operations										
Revenue	1,599,373	107,988	593	1,707,954	–	–	(370)	1,707,584	1,208	1,708,792
Freight and charter-hire	1,599,373[1]	100,423	–	1,699,796	–	–	(370)[1]	1,699,426	1,208[1]	1,700,634
Maritime management services	–	7,565	593	8,158	–	–	–	8,158	–	8,158
Bunker & port disbursements	(863,858)[2]	(4,128)	–	(867,986)	–	–	192[2]	(867,794)	867,794[2]	–
Time charter equivalent earnings	735,515									
Cost of services	(688,635)	(97,266)	–	(785,901)	–	–	–	(785,901)	(867,794)	(1,653,695)
Bunker & port disbursements	–	–	–	–	–	–	–	–	(867,794)[2]	(867,794)
Charter-hire expenses for vessels	(488,781)	(11,199)	–	(499,980)	–	–	–	(499,980)	–	(499,980)
Vessel operating costs	(91,712)	(54,284)	–	(145,996)	–	–	–	(145,996)	–	(145,996)
Depreciation of vessels	(68,139)	(12,737)	–	(80,876)	–	–	–	(80,876)	–	(80,876)
Direct overheads	(40,003)	(19,046)	–	(59,049)	–	–	–	(59,049)	–	(59,049)
Gross profit	46,880	6,594	593	54,067	–	–	(178)	53,889	1,208	55,097
General and administrative expenses	–	–	–	–	(2,059)	–	(15,499)[3]	(17,558)	–	(17,558)
Other income and expenses, net	–	(132)	–	(132)	–	–	5,700[7]	5,568	(1,208)[1]	4,360
Finance costs, net	(20,825)	(931)	–	(21,756)	(2,337)	–	(13,350)[8]	(37,443)	–	(37,443)
Share of profits of joint ventures	–	5,028	–	5,028	–	–	–	5,028	–	5,028
Share of profits less losses/ impairment of associates	–	–	–	–	–	–	1,542	1,542	–	1,542
Profit/(loss) before taxation	26,055	10,559	593	37,207	(4,396)	–	(21,785)	11,026	–	11,026
Taxation	–	(97)	(1,071)	(1,168)	–	–	–	(1,168)	–	(1,168)
Profit/(loss) for the year	26,055	10,462	(478)	36,039	(4,396)	–	(21,785)	9,858	–	9,858
Discontinued operations										
Loss for the year	–	–	–	–	496	(500)	(8,331)[9]	(8,335)	–	(8,335)
Profit/(loss) attributable to shareholders	26,055	10,462	(478)	36,039	(3,900)	(500)	(30,116)	1,523	–	1,523

(6) For the presentation of the financial statements, the impairment of PB Towage interest in joint ventures in 2014 is reclassified to share of profits less losses/impairment of joint ventures.

(7) "Unallocated Others" mainly represents i) a loss from the disposal of our harbour towage business and OMSA of US$7.6 million and ii) their related non-cash exchange loss of US$12.7 million including an exchange gain released from reserve arising from the repayment of equity shareholder loan by Towage of US$1.0 million (2013: US$5.1 million).

(8) "Unallocated Others" represents net unrealised interest rate swap contract benefits of US$1.7 million (2013: US$2.0 million). The amount for 2013 is also offset by an expense of US$15.3 million relating to the repayment of the finance lease liabilities upon exercise of ten purchase option under finance leases.

(9) "Unallocated Others" in 2014 represents the release from foreign exchange reserve amounting to US$5.0 million (2013: US$8.3 million) in relation to one (2013: three) RoRo vessel whose bareboat charter to the purchaser commenced during the year.

(10) For 2014 onwards, all financing and associated costs for existing vessel commitments and future vessel acquisitions, net of interest income, have been allocated to the appropriate business segment. This results in the Treasury segment having a nil net finance cost.

Notes to the Financial Statements continued

4 SEGMENT INFORMATION (CONTINUED)

(b) Balance sheet segment information

At 31 December 2014 US$'000	Pacific Basin Dry Bulk	PB Towage	All Other Segments	Total Segments	Unallocated Treasury	Unallocated PB RoRo	Unallocated Others	Per Financial Statements
Total assets	1,753,952	119,396	8,658	1,882,006	425,461	–	49[1,2]	2,307,516
Including:								
Property, plant and equipment	1,538,954	41,652	4,318	1,584,924	–	–	–	1,584,924
– Include additions to PP&E	187,310	4,208	2,954	194,472	–	–	–	194,472
Interest in a joint venture	–	682	–	682	–	–	–	682
Total cash and deposits	–	–	94	94	363,331	–	–	363,425
Total liabilities	1,237,100	12,693	1,145	1,250,938	9,223	–	45,609[1,2]	1,305,770
Including:								
Long-term borrowings	999,744	–	–	999,744	–	–	–	999,744

- *Vessels delivered & under construction*
- *Goodwill*
- *Harbour towage receivables*
- *Properties*
- *Group unallocated cash*
- *RoRo receivables*
- *Derivative assets*
- *Bunker tanker, N.Z.*
- *Bank loans*
- *Convertible bonds*
- *Finance lease liabilities*
- *Derivative liabilities*

At 31 December 2013 US$'000	Pacific Basin Dry Bulk	PB Towage	All Other Segments	Total Segments	Unallocated Treasury	Unallocated PB RoRo	Unallocated Others	Per Financial Statements
Total assets	1,654,865	243,693	12,542	1,911,100	579,309	31,624	15,413[1,2]	2,537,446
Including:								
Property, plant and equipment	1,436,312	183,035	2,950	1,622,297	–	–	–	1,622,297
– Include additions to PP&E	442,147	14,350	1,863	458,360	–	–	–	458,360
Interests in joint ventures	–	26,650	–	26,650	–	–	–	26,650
– Include additions to interest in a joint venture	–	17,999	–	17,999	–	–	–	17,999
Investments in associates	–	–	1,332	1,332	–	–	–	1,332
Total cash and deposits	–	15,361	120	15,481	470,581	–	–	486,062
Total liabilities	1,160,396	39,788	882	1,201,066	12,065	3,452	16,569[1,2]	1,233,152
Including:								
Long-term borrowings	1,015,012	22,213	–	1,037,225	–	–	–	1,037,225

5 EXPENSES BY NATURE

US$'000	2014	2013
Bunkers consumed	509,778	540,210
Operating lease expenses		
– vessels	510,332	499,980
– land and buildings	5,041	4,978
Port disbursements and other voyage costs	352,442	326,391
Depreciation		
– owned vessels	93,887	69,966
– leased vessels	6,577	10,910
– other owned property, plant and equipment	1,978	1,737
– investment properties	67	67
Amortisation of land use rights	74	113
Provision for onerous contracts	100,906	656
Provision for impairment losses		
– vessels (Note 6(a))	58,892	–
– trade receivables	1,477	1,530
Employee benefit expenses including Directors' emoluments (see Remuneration Report P.58)	54,398	53,881
Net losses on bunker swap contracts (Note 14(e))	39,488	279
Loss on disposal of harbour towage business	19,295	–
Loss on disposal of OMSA JV	1,987	–
Lubricating oil consumed	8,646	6,697
Losses on forward freight agreements (Note 14(e))	7,843	3,718
Auditors' remuneration		
– audit	1,096	1,226
– non-audit	594	1,424
Net foreign exchange losses	972	2,160
Net losses/(gains) on forward foreign exchange contracts (Note 14(e))	87	(481)
Vessel and other expenses	184,875	150,186
The sum of the above reconciles to the following headings in the consolidated income statement. (i) "cost of services", (ii) "general and administrative expenses", (iii) "vessel impairment and provision" and (iv) "other expenses"	1,960,732	1,675,628

Total administrative expenses

US$ Million	2014	2013
Direct overheads	66.4	59.0
General and administrative expenses	9.3	17.6
Total administrative expenses	75.7	76.6

The increase of US$7.4 million in direct overheads was mainly due to expansion of our dry bulk owned fleet technical and operations staff. The saving of US$8.3 million in general and administrative expenses reflected a loss arising from the revaluation of foreign currencies in 2013 that did not recur and the cost of wind-down of certain non-core operations during 2013.

With the disposal of the harbour towage business and the downsizing of the remaining towage operations, 2015 total administrative expenses are expected to decrease over 10% when compared to 2014.

Operating lease expenses

Contingent lease payments made amounted to US$120.4 million (2013: US$116.6 million). These related to dry bulk vessels chartered-in on an index-linked basis.

Notes to the Financial Statements continued

5 EXPENSES BY NATURE (CONTINUED)

Accounting policy – Impairment

Impairment of investments and non-financial assets

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

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

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

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

Impairment of available-for-sale financial assets

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

Impairment of trade and other receivables

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

6 PROPERTY, PLANT AND EQUIPMENT

US$'000	Group						
	Vessels and vessel component costs	Vessels under construction	Buildings	Leasehold improve-ments	Furniture, fixtures and equipment	Motor vehicles	Total
Cost							
At 1 January 2014	1,930,731	29,104	1,231	4,826	8,487	233	1,974,612
Additions	119,905	71,413	–	1,764	1,390	–	194,472
Disposals	(12,216)	–	–	–	(38)	(93)	(12,347)
Disposals of subsidiaries	(104,777)	–	–	(1,532)	(593)	–	(106,902)
Write offs	(18,858)	–	–	(239)	(351)	(92)	(19,540)
Transfers from other non-current asset	5,917	–	–	–	–	–	5,917
Transfers to assets held for sale (Note 19)	(12,754)	–	–	–	–	–	(12,754)
Transfers to finance lease receivables (Note 15(d))	(7,800)	–	–	–	–	–	(7,800)
Transfers from finance lease receivables (Note 15(d))	7,077	–	–	–	–	–	7,077
Exchange differences	(13,779)	–	(59)	(192)	(121)	(1)	(14,152)
Reclassifications	47,258	(47,258)	–	–	–	–	–
At 31 December 2014	1,940,704	53,259	1,172	4,627	8,774	47	2,008,583
Accumulated depreciation and impairment							
At 1 January 2014	341,950	–	90	3,537	6,520	218	352,315
Charge for the year	100,464	–	14	575	1,387	2	102,442
Impairment charge	58,892	–	–	–	–	–	58,892
Disposals	(9,965)	–	–	–	(25)	(88)	(10,078)
Disposals of subsidiaries	(44,295)	–	–	(624)	(434)	–	(45,353)
Write offs	(18,858)	–	–	(239)	(343)	(92)	(19,532)
Transfers to asset held for sale (Note 19)	(7,005)	–	–	–	–	–	(7,005)
Transfers to finance lease receivables (Note 15(d))	(159)	–	–	–	–	–	(159)
Transfers from finance lease receivables (Note 15(d))	306	–	–	–	–	–	306
Exchange differences	(7,952)	–	3	(128)	(91)	(1)	(8,169)
At 31 December 2014	413,378	–	107	3,121	7,014	39	423,659
Net book value							
At 31 December 2014	1,527,326	53,259	1,065	1,506	1,760	8	1,584,924
Estimated useful lives for the year ended 2014 and 2013	Dry bulk vessels: 25 years Towage vessels: 30 years Vessel component costs: estimated period to the next drydocking Vessels under construction: N/A		50 years	4 to 5 years or the remaining lease period if shorter	3 to 5 years	4 to 5 years	

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

	Group						
US$'000	Vessels and vessel component costs	Vessels under construction	Buildings	Leasehold improve-ments	Furniture, fixtures and equipment	Motor vehicles	Total
Cost							
At 1 January 2013	1,361,478	183,572	3,264	3,876	8,172	234	1,560,596
Additions	267,134	189,363	–	1,195	666	2	458,360
Disposals	(4,052)	–	(1,954)	–	–	–	(6,006)
Write offs	(11,365)	–	–	–	(178)	–	(11,543)
Transfers from other non-current assets	5,322	–	–	–	–	–	5,322
Exchange differences	(31,617)	–	(79)	(245)	(173)	(3)	(32,117)
Reclassification	343,831	(343,831)	–	–	–	–	–
At 31 December 2013	1,930,731	29,104	1,231	4,826	8,487	233	1,974,612
Accumulated depreciation and impairment							
At 1 January 2013	281,000	–	415	3,238	5,532	209	290,394
Charge for the year	80,876	–	92	382	1,254	9	82,613
Disposals	(1,665)	–	(425)	–	–	–	(2,090)
Write offs	(11,365)	–	–	–	(178)	–	(11,543)
Exchange differences	(6,896)	–	8	(83)	(88)	–	(7,059)
At 31 December 2013	341,950	–	90	3,537	6,520	218	352,315
Net book value							
At 31 December 2013	1,588,781	29,104	1,141	1,289	1,967	15	1,622,297

(a) The impairment charge of US$58.9 million in 2014 relates to the vessels under PB Towage. The increasingly competitive landscape in the Australasian harbour and offshore towage and infrastructure support markets resulted in a downgraded outlook for the long-term earnings capability of PB Towage necessitating the vessel impairment.

(b) Vessels and vessel component costs include:

	2014		2013	
US$'000	Aggregate cost	Accumulated depreciation	Aggregate cost	Accumulated depreciation
Vessel component costs	**52,426**	**(23,894)**	57,374	(28,318)
Vessels and vessel component costs under finance leases	**53,796**	**(34,651)**	53,591	(28,570)

(c) Certain owned vessels of net book value of US$1,246,087,000 (2013: US$1,225,336,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 23(a)(i)).

(d) Vessels under construction includes an amount of US$36,487,000 (2013: US$23,138,000) paid by the Group in relation to vessels whose construction work had not yet commenced.

(e) During the year, the Group had capitalised borrowing costs amounting to US$158,000 (2013: US$3,305,000) on qualifying assets (Note 27). Borrowing costs were capitalised at the weighted average rate of 4.3% of the Group's general borrowings.

Accounting policies – Property, plant and equipment

Please refer to Note 5 for the accounting policy on impairment and Note 23(b) for that on finance leased fixed assets.

Vessels and vessel component costs

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

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

Vessels under construction

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

Borrowing costs

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

Other property, plant and equipment

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

Subsequent expenditure

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

Depreciation

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

Residual values and useful lives

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

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

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

Gains or losses on disposal

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

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Critical accounting estimates and judgements

Residual values of property, plant and equipment

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

- Sensitivity analysis:

With all other variables held constant, if the residual value increases/decreases by 10% from management estimates, the depreciation expense would decrease/increase by US$2.6 million in the next year.

Useful lives of vessels and vessel component costs

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

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

- Sensitivity analysis:

With all other variables held constant, if the useful lives increase/decrease by 3 years from management estimates, the depreciation expense would decrease by US$15.3 million or increase by US$8.8 million in the next year.

Impairment of vessels and vessels under construction

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

The vessels under Pacific Basin Dry Bulk and PB Towage are considered as two separate cash-generating units (CGUs). Vessels under the same CGU are operated on a portfolio basis and are interchangeable.

Pacific Basin Dry Bulk

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

For the 2014 PB Pacific Basin Dry Bulk value-in-use assessment, the applicable discount rate is 6.4% (2013: nil).

- Sensitivity analysis:

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

PB Towage

The recoverable amount of the PB Towage CGU calculated as the fair value less transaction costs, is estimated by independent valuer. The fair value assumes a basis of a willing buyer and willing seller under general market conditions and it is considered a Level 3 valuation in accordance with HKFRS 13. Please refer to Note 13 Fair value levels for the definitions of different levels.

7 INVESTMENT PROPERTIES

	Group	
US$'000	**2014**	2013
At 1 January	**2,675**	2,675
Depreciation	**(67)**	(67)
Exchange difference	**(3)**	67
At 31 December	**2,605**	2,675
Estimated useful lives	**45 years**	45 years

The investment properties were valued at 31 December 2014 by an independent qualified valuer on the basis of market value. The fair value of the investment properties was approximately US$4,286,000 (2013: US$4,310,000).

Accounting policy

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

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

8 LAND USE RIGHTS

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

	Group	
US$'000	**2014**	2013
At 1 January	**2,971**	3,767
Amortisation	**(74)**	(113)
Exchange difference	**(3)**	82
Disposal	**–**	(765)
At 31 December	**2,894**	2,971

Accounting policy

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

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

9 GOODWILL

	Group	
US$'000	**2014**	2013
At 1 January/31 December	**25,256**	25,256

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

Accounting policy

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

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Critical accounting and estimates judgements – Impairment of goodwill

The recoverable amount of Pacific Basin Dry Bulk to which the goodwill relates has been determined based on a value-in-use calculation over its useful life. The calculation is based on a one-year budget and a further four-years outlook. Key assumptions were based on past performance, management's expectations on market development and general inflation. Cash flows beyond the fifth year are extrapolated assuming zero growth and no material change in the existing scope of business, business environment and market conditions. The discount rate applied to the cash flow projections is 6.4% (2013: 7.4%) reflecting the Group's cost of capital.

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

With all other variables held constant, increasing the discount rates by 1% from the original estimate will not give rise to any impairment.

10 SUBSIDIARIES

	Company	
US$'000	**2014**	2013
Non-current assets		
Unlisted investments, at cost	**1,319,283**	828,853
Current assets		
Amounts due from subsidiaries	**138,445**	642,136
Current liabilities		
Amounts due to subsidiaries	**(14,769)**	(14,928)

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

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

Details of principal subsidiaries of the Group as at 31 December 2014 are set out in Note 38.

Notes to the Financial Statements continued

10 SUBSIDIARIES (CONTINUED)

Accounting policy – Consolidation

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

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

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

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

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

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

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

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

11 INTERESTS IN JOINT ARRANGEMENTS

(a) Joint ventures

	Group	
US$'000	**2014**	2013
Share of net assets	**(2,191)**	18,505
Goodwill	**–**	5,133
Equity loan to Seafuels (Note)	**2,873**	3,012
	682	26,650

Note: The equity loan is unsecured, non-interest bearing, and has no fixed repayment terms. The Group does not plan to request for the repayment in the foreseeable future.

The Group's effective share of assets and liabilities of Seafuels (2013: Seafuels and OMSA) is set out below:

	Group	
US$'000	**2014**	2013
Assets		
Non-current assets	**3,160**	10,444
Current assets	**1,004**	38,590
	4,164	49,034
Liabilities		
Non-current liabilities	**(2,916)**	(11,834)
Current liabilities	**(3,439)**	(18,695)
	(6,355)	(30,529)
Net (liabilities)/assets	**(2,191)**	18,505

The Group disposed all its interest in the joint venture, Offshore Marine Services Alliance Pty Ltd ("OMSA") during the year and resulted in loss of US$2.0 million.

The Group's effective share of revenue and expenses of the joint ventures, mainly contributed by OMSA, and the impairment charge during the year are set out below:

US$'000	**2014**	2013
Revenue	**101,211**	146,276
Expenses	**(99,329)**	(141,248)
Share of results	**1,882**	5,028
Impairment	**(10,075)**	–
	(8,193)	5,028

There are no contingent liabilities relating to the Group's interests in the joint venture, and there are no contingent liabilities or commitments of the joint venture itself.

Accounting policy – Joint ventures

A joint ventures is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interests in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's interests in joint ventures include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition reserves is recognised in other comprehensive income based on the relevant profit sharing ratios.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint ventures that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. The financial information of joint ventures has been adjusted where necessary to ensure consistency with the policies adopted by the Group.

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

Details of the joint venture of the Group held indirectly by the Company at 31 December 2014 is as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
PB Towage:				
Seafuels Limited ("Seafuels")	New Zealand	NZD100	50%	Bunker tanker owning and chartering

(b) Joint operation

In 2014, the Group had a contractual arrangement with a third party to share equally the operating result associated with the chartering of a vessel (joint operation). The amounts of income and expenses recognised in respect of the Group's interest in the joint operation are as follow:

	Group	
US$'000	**2014**	2013
Charter-hire income included in revenue	**4,454**	4,593
Charter-hire expenses included in direct costs	**(3,284)**	(3,384)
	1,170	1,209

Accounting policy – Joint operation

A joint operation is a contractual arrangement whereby the Group and other parties combine their operations, resources and expertise to undertake an economic activity in which each party takes a share of the revenue and costs in the economic activity, such a share being determined in accordance with the contractual arrangement.

The assets that the Group controls and liabilities that the Group incurs in relation to the joint operation are recognised in the consolidated balance sheet on an accrual basis and classified according to the nature of the item. The expenses that the Group incurs and its share of income that it earns from the joint operations are included in the consolidated income statement.

Notes to the Financial Statements continued

12 INVESTMENTS IN ASSOCIATES

	Group	
US$'000	**2014**	2013
Share of net assets	**–**	1,332

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

	Group	
US$'000	**2014**	2013
Assets		
Non-current assets	**3,834**	4,478
Current assets	**1,567**	351
	5,401	4,829
Liabilities		
Non-current liabilities	**(1,935)**	(1,933)
Current liabilities	**(3,466)**	(1,564)
	(5,401)	(3,497)
Net assets	**–**	1,332

	2014	2013
Revenue	**–**	–
Expenses	**–**	–
Share of results	**–**	–
Impairment (charge)/write-back	**(1,500)**	1,542
	(1,500)	1,542

Accounting policy – Associates

An associate is an entity over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income based on the relevant profit sharing ratios. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of the associates has been adjusted where necessary to ensure consistency with the policies adopted by the Group.

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

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group					
	2014			2013		
US$'000	Level 1	Level 3	Total	Level 1	Level 3	Total
Listed equity securities (a)	**3,597**	**–**	**3,597**	4,365	–	4,365
Unlisted equity securities (b)	**–**	**529**	**529**	–	529	529
	3,597	**529**	**4,126**	4,365	529	4,894

(a) Listed equity securities represent the Group's investment in Greka Drilling Limited, a company listed on the London AIM market.

(b) Unlisted equity securities represent the Group's investment in an unlisted renewable energy equity fund.

Available-for-sale financial assets have been analysed by valuation method as above and the levels are defined as follows:

Fair value levels

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Our unlisted equity securities are Level 3 financial instruments and had no changes during the year. Their fair values are determined with reference to their net asset values.

Accounting policy – Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories under financial assets. They are included in non-current assets unless management intends to dispose of them within twelve months from the balance sheet date.

Assets in this category are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are released to the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other substantially similar instruments, and discounted cash flow analysis.

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

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES

The Group is exposed to fluctuations in freight rates, bunker prices, interest rates and currency exchange rates. The Group manages these exposures by way of:

- forward freight agreements;
- bunker swap contracts;
- interest rate swap contracts; and
- forward foreign exchange contracts.

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

Derivative assets and liabilities have been analysed by valuation method. Please refer to Note 13 Fair value levels for the definitions of different levels.

	Group					
	2014			2013		
US$'000	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative assets						
Cash flow hedges						
Forward foreign exchange contracts (a(i))	–	3,513	3,513	–	12,638	12,638
Interest rate swap contracts (d(i))	–	–	–	–	177	177
Derivative assets that do not qualify for hedge accounting						
Forward foreign exchange contracts (a(ii))	–	154	154	–	–	–
Bunker swap contracts (b)	–	46	46	–	1,386	1,386
Forward freight agreements (c)	3	–	3	1,212	–	1,212
Total	3	3,713	3,716	1,212	14,201	15,413
Less: non-current portion of						
Forward foreign exchange contracts (a(i))	–	–	–	–	(12,638)	(12,638)
Interest rate swap contracts (d(i))	–	–	–	–	(177)	(177)
Bunker swap contracts (b)	–	(46)	(46)	–	(360)	(360)
Non-current portion	–	(46)	(46)	–	(13,175)	(13,175)
Current portion	3	3,667	3,670	1,212	1,026	2,238
Derivative liabilities						
Cash flow hedges						
Forward foreign exchange contracts (a(i))	–	6,799	6,799	–	8,954	8,954
Interest rate swap contracts (d(i))	–	4,676	4,676	–	6,508	6,508
Derivative liabilities that do not qualify for hedge accounting						
Forward foreign exchange contracts (a(ii))	–	240	240	–	–	–
Bunker swap contracts (b)	–	30,624	30,624	–	1,275	1,275
Forward freight agreements (c)	237	–	237	1,666	–	1,666
Interest rate swap contracts (d(ii))	–	3,274	3,274	–	4,956	4,956
Total	237	45,613	45,850	1,666	21,693	23,359
Less: non-current portion of						
Forward foreign exchange contracts (a(i))	–	(6,799)	(6,799)	–	(6,772)	(6,772)
Interest rate swap contracts (d(i))	–	(4,161)	(4,161)	–	(6,501)	(6,501)
Interest rate swap contracts (d(ii))	–	(3,274)	(3,274)	–	(4,955)	(4,955)
Bunker swap contracts (b)	–	(8,092)	(8,092)	–	(551)	(551)
Non-current portion	–	(22,326)	(22,326)	–	(18,779)	(18,779)
Current portion	237	23,287	23,524	1,666	2,914	4,580

(a) Forward foreign exchange contracts

The functional currency of most of the Group's operating companies is United States Dollar ("USD") as the majority of our transactions are denominated in this currency. Historically, a major part of our exchange rate fluctuations risk arose from the purchase of vessels denominated in non-USD currency. However this risk has significantly reduced as most of our vessel purchases are denominated in USD.

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

The Group has long-term bank borrowings denominated in Danish Kroner ("DKK") with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into forward foreign exchange contracts with terms that match the repayment schedules of such long-term bank borrowings. These forward foreign exchange contracts qualify for hedge accounting as cash flow hedges.

At 31 December 2014, the Group had outstanding forward foreign exchange contracts with banks to buy approximately DKK 1,134.1 million (2013: DKK 1,290.3 million) and simultaneously sell approximately US$204.3 million (2013: US$233.0 million), which expire through August 2023.

At 31 December 2014, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$64.5 million (2013: US$129.1 million) and simultaneously sell approximately EUR 50.0 million (2013: EUR 100.0 million) for the sale proceeds of our two (2013: four) RoRo vessels that are denominated in Euros. These contracts expire through December 2015.

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

At 31 December 2014, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$46.3 million (2013: Nil) and simultaneously sell approximately AUD56.9 million (2013: Nil) for our other receivables that were denominated in Australian Dollars. These contracts expired through February 2015.

- *Sensitivity analysis:*

With all other variables held constant, if the currencies of non- functional currency items had weakened/strengthened by 3% against United States Dollars, the Group's profit after tax and equity would have been decreased/increased by US$0.2 million (2013: US$0.6 million) mainly as a result of translation of cash and deposits denominated in Australian Dollars.

(b) Bunker swap contracts

Bunker swap contracts that do not qualify for hedge accounting

The Group enters into bunker swap contracts to manage the fluctuations in bunker prices in connection with the Group's cargo contract commitments.

At 31 December 2014, the Group had outstanding bunker swap contracts to buy approximately 180,900 (2013: 171,600) metric tonnes of bunkers. These contracts expire through December 2021 (2013: December 2018).

- *Sensitivity analysis:*

With all other variables held constant, if the average forward bunker rate on the bunker swap contracts held by the Group at the balance sheet date had been 10% higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$5.9 million (2013: US$10.2 million). Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which is expected to offset such increase/decrease of the Group's profit after tax and equity in future periods.

(c) Forward freight agreements

Forward freight agreements that do not qualify for hedge accounting

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

At 31 December 2014, the Group had outstanding forward freight agreements as follows:

Contract Type	Index[1]	Quantity (days)	Contract Daily Price (US$)	Expiry through
2014				
Buy	**BHSI**	**135**	**8,000**	**March 2015**
Buy	**BSI**	**45**	**10,500**	**March 2015**
Sell	**BSI**	**15**	**9,100**	**January 2015**
2013				
Buy	BHSI	360	8,750	December 2014
Sell	BHSI	120	8,500 to 8,550	March 2014
Buy	BSI	420	9,900 to 12,300	December 2014
Sell	BSI	810	8,500 to 12,750	December 2014

[1] "BSI" represents "Baltic Supramax Index" and "BHSI" represents "Baltic Handysize Index".

- *Sensitivity analysis:*

With all other variables held constant, if the average forward freight rate on FFA contracts held by the Group at the balance sheet date had been 20% higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$0.2 million (2013: approximately US$0.5 million). Future movements in charter rates will be reflected in the eventual operating revenue derived from the vessels, which would offset such increase/decrease of the Group's profit after tax and equity.

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

(d) Interest rate swap contracts

Certain bank borrowings are subject to floating interest rates, which can be volatile, but the Group manages these exposures by way of entering into interest rate swap contracts.

(i) Interest rate swap contracts that qualify for hedge accounting as cash flow hedges

Effective date	Notional amount	Swap details	Expiry
For 2014 & 2013			
30 December 2013 & 21 January 2014	US$178 million on amortising basis	3-month floating rate LIBOR swapped to fixed rates of approximately 1.9% to 2.1% per annum	Contracts expire through December 2021
2 January 2007	US$20 million	6-month floating rate LIBOR swapped to a fixed rate of approximately 5.6% per annum	Contracts expire through December 2016
31 March 2009	US$100 million	3-month floating rate LIBOR swapped to fixed rates of approximately 2.9% to 3.0% per annum	Contracts expire through March 2016
For 2013			
28 March 2013 & 30 April 2013	A$5.4 million	3-month floating rate BBSW swapped to a fixed rate of approximately 3.2% per annum	Contracts expired through April 2014

(ii) Interest rate swap contracts that do not qualify for hedge accounting

Starting from 2 January 2007, a notional amount of US$40 million with the 6-month floating rate LIBOR swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month floating rate LIBOR remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6-month fixing period when the prevailing 6-month floating rate LIBOR is above 6.0% and reverts back to the fixed rate should the 6-month floating rate LIBOR subsequently drop below 6.0%.

This contract expires in January 2017.

- *Sensitivity analysis:*

With all other variables held constant, if the average interest rate on net cash balance subject to floating interest rates, which includes cash and deposits net of unhedged bank loans, held by the Group at the balance sheet date had been 50 basis point higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$1.2 million (2013: US$1.9 million).

(e) Analysis of derivative income and expense

During the year ended 31 December 2014, the Group recognised net derivative expense of US$50.2 million, as follows:

US$ Million	Realised	Unrealised	**2014**	2013
Income				
Forward freight agreements	2.5	1.7	**4.2**	2.5
Bunker swap contracts	0.8	0.5	**1.3**	4.4
Interest rate swap contracts	–	1.7	**1.7**	2.0
Forward foreign exchange contracts	–	0.1	**0.1**	0.5
	3.3	4.0	**7.3**	9.4
Expenses				
Forward freight agreements	(6.4)	(1.5)	**(7.9)**	(3.7)
Bunker swap contracts	(9.6)	(31.2)	**(40.8)**	(4.7)
Interest rate swap contracts	(8.6)	–	**(8.6)**	(5.8)
Forward foreign exchange contracts	–	(0.2)	**(0.2)**	–
	(24.6)	(32.9)	**(57.5)**	(14.2)
Net				
Forward freight agreements	(3.9)	0.2	**(3.7)**	(1.2)
Bunker swap contracts	(8.8)	(30.7)	**(39.5)**	(0.3)
Interest rate swap contracts	(8.6)	1.7	**(6.9)**	(3.8)
Forward foreign exchange contracts	–	(0.1)	**(0.1)**	0.5
	(21.3)	(28.9)	**(50.2)**	(4.8)

Presentation in the Segment Information:

Revenue
Bunkers & port disbursements
Cost of services
Other income/Other expenses
Finance costs
General and administration
Profit for the year

Presentation in the Financial Statements:

Revenue
Bunkers & port disbursements
Cost of services
Other income/Other expenses
Finance costs
General and administration
Profit for the year

Realised:
- *Cash settlement of contracts completed in the year*
- *Included in segment results*

Unrealised:
- *Contracts to be settled in future years*
- *Accounting reversal of earlier year contracts now completed*
- *Not part of segment results*

The unrealised bunker MTM charge will reverse upon the maturity of the underlying swap contracts. If bunker prices remained at the 31 December 2014 level the reversal would be US$22.5 million in 2015.

The application of HKAS 39 "Financial Instruments: Recognition and Measurement" has the effect of shifting to this year the estimated results of these derivative contracts that expire in future periods. In 2014 this created a net unrealised non-cash expense of US$28.9 million (2013: benefit of US$2.3 million). The cash flows of these contracts will occur in future reporting years.

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

Accounting policy – Financial assets at fair value through profit or loss

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

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

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

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

Derivative financial instruments and hedging activities

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

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

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

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income and expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recycled when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(ii) Derivatives not qualifying for hedge accounting

Derivative instruments that do not qualify for hedge accounting are accounted for as financial assets and liabilities at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

Bunker swap contracts and forward freight agreements do not qualify for hedge accounting mainly because the contract periods, which are in calendar months, do not coincide with the periods of the physical contracts. The terms of one of the interest rate swap contracts and certain foreign forward exchange contracts also did not qualify for hedge accounting.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

15 TRADE AND OTHER RECEIVABLES

US$'000	Group 2014	2013
Non-current receivables		
Prepayments	**8,936**	–
Other receivables from disposal of RoRos (a)	**–**	65,975
Total	**8,936**	65,975
Current receivables		
Trade receivables – gross	**45,395**	46,949
Less: provision for impairment	**(1,935)**	(2,286)
Trade receivables – net (c)	**43,460**	44,663
Other receivables from disposal of RoRos (a)	**58,049**	34,932
Other receivables from disposal of harbour towage business (b)	**57,839**	–
Other receivables from disposal of OMSA JV	**5,670**	–
Other receivables	**42,395**	45,220
Prepayments	**18,266**	16,939
Amounts due from joint ventures	**–**	620
Total	**225,679**	142,374

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Strategy Delivery & Risks
Credit & counterparty risk

The carrying values of trade and other receivables approximate their fair values due to their short-term maturities.

Trade and other receivables are mainly denominated in United States Dollars apart from those mentioned in note (a) and (b).

Accounting policy – Loan receivables, trade and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Trade and other receivables in the balance sheet are classified as loans and receivables.

Loans and receivables are recognised initially at fair value, plus transaction costs incurred. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Trade receivables mainly represent freight and charter-hire receivables which are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment.

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

(a) Other receivables from disposal of RoRos

The net sale proceeds of US$58.0 million (2013: US$100.9 million) for the last two (2013: three) RoRo vessels will be settled by December 2015. These balances represent the fair value based on their cash flows discounted at a borrowing rate of 6%. The discount rate represents the Euro borrowing rate at inception including the appropriate credit spread.

The receivables are denominated in Euros which are hedged by forward foreign exchange contracts.

(b) Other receivables from disposal of harbour towage business

The receivables are denominated in Australian dollars which are hedged by forward foreign exchange contracts. The disposal has been completed subsequent to the year end and the receivables settled in February 2015.

(c) Trade receivables

At 31 December 2014, the ageing of net trade receivables based on invoice date is as follows:

US$'000	Group 2014	2013
< 30 days	**30,446**	27,500
31-60 days	**5,543**	6,029
61-90 days	**3,192**	3,888
> 90 days	**4,279**	7,246
	43,460	44,663

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

US$'000	Group 2014	2013
At 1 January	**2,286**	1,331
Provision for receivable impairment	**2,664**	2,704
Reversal of prior year overprovision	**(1,187)**	(1,174)
Total charge to income statement	**1,477**	1,530
Amount written off during the year	**(1,828)**	(575)
At 31 December	**1,935**	2,286

Credit policy

Trade receivables consist principally of voyage-related trade receivables. It is industry practice that 95% to 100% of freight is paid upon completion of loading, with any balance paid after completion of discharge and the finalisation of port disbursements, demurrage claims or other voyage-related charges. The Group will not normally grant any credit terms to its customers.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of international customers.

As at 31 December 2014 and 2013, net trade receivables are all past due but not impaired as no customer is expected to have significant financial difficulty. All other items within trade and other receivables do not contain past due or impaired assets.

Notes to the Financial Statements continued

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Finance lease receivables

During the year, the Group leased out 4 towage vessels under finance leases. Under the terms of leases, the charterer has the obligation to purchase these vessels at the end of lease period. However, the charterer has entered into receivership in later period and the charters were terminated. The vessels are derecognised as finance lease receivables and their values are reclassified to property, plant and equipment (Note 6).

16 CASH AND DEPOSITS

	Group	
US$'000	**2014**	2013
Cash at bank and on hand	**75,397**	90,637
Bank deposits	**288,028**	395,425
Total cash and deposits	**363,425**	486,062
Effective interest rate on bank deposits at year end	**1.24%**	1.41%
Average remaining maturity of bank deposits	**83 days**	74 days
Cash and cash equivalents	**256,731**	408,200
Term deposits	**105,000**	75,000
Cash and deposits	**361,731**	483,200
Restricted bank deposits included in non-current assets	**89**	1,269
Restricted bank deposits included in current assets (Note)	**1,605**	1,593
Total cash and deposits	**363,425**	486,062

Note: The balance mainly represented the collaterals held for a bank loan (Note 23(a)(iv)). Balances in 2013 were held as securities with banks in relation to certain performance guarantees.

As at 31 December 2014, the Company had cash at bank of US$29,000 (2013: US$23,000).

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

Accounting policy – Cash and cash equivalents

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

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Funding
Cash flow and cash

17 OTHER NON-CURRENT ASSETS

	Group	
US$'000	**2014**	2013
Prepayments for acquisition of vessels	**–**	5,917

Other non-current assets are denominated in United States Dollars. Please refer to Note 5 for the accounting policy on impairment.

18 INVENTORIES

	Group	
US$'000	**2014**	2013
Bunkers	**69,774**	95,817
Lubricating oil	**9,750**	8,189
	79,524	104,006

Accounting policy

Inventories are stated at the lower of cost and net realisable value, as estimated by the management. Costs are calculated on a first-in first-out basis.

19 ASSETS HELD FOR SALE

The Group entered into agreements with a third party in 2014 to dispose of two harbour towage vessels. The transactions have been completed subsequent to the year end producing no material gain or loss. The carrying amounts of the two vessels of US$5,749,000 represent the estimated fair value less costs to sell and reclassified from property, plant and equipment (Note 6) accordingly.

Accounting policy – Assets held for sale and discontinued operations

Assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

A discontinued operation is a component of the Group's business which represents a separate operations, or it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The operations and cash flows of a discontinued operation should be clearly distinguished from the rest of the Group.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets constituting the discontinued operation.

20 TRADE AND OTHER PAYABLES

	Group	
US$'000	**2014**	2013
Trade payables	**54,458**	76,094
Accruals and other payables	**65,683**	55,839
Receipts in advance	**37,557**	34,542
	157,698	166,475

At 31 December 2014, the ageing of trade payables based on due date is as follows:

	Group	
US$'000	**2014**	2013
< 30 days	**48,247**	70,982
31-60 days	**987**	1,072
61-90 days	**1,279**	157
> 90 days	**3,945**	3,883
	54,458	76,094

The carrying values of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

Trade and other payables are mainly denominated in United States Dollars.

Accounting policy – Trade payables

Trade payables mainly represent freight and charter-hire payables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

21 ASSETS AND LIABILITIES OF DISCONTINUED OPERATIONS CLASSIFIED AS HELD FOR SALE

In September 2012, the Group entered into an agreement to sell six RoRo vessels. The assets and liabilities related to the RoRo business were presented as "held for sale". The RoRo fleet was considered fully disposed in April 2014 when the last RoRo vessel commenced its bareboat charter.

(a) Assets and liabilities of discontinued operations

US$'000	**2014**	2013
Assets held for sale (Note)	**–**	31,166
Inventory	**–**	31
Other current assets	**–**	427
Assets of discontinued operations classified as held for sale	**–**	31,624
Trade and other payable	**–**	(3,446)
Other current liabilities	**–**	(6)
Liabilities of discontinued operations classified as held for sale	**–**	(3,452)
Net assets	**–**	28,172

Note: 2013 figure relates to one RoRo vessel which commenced its bareboat charter to the purchaser in 2014.

(b) Analysis of the result of the discontinued operations

US$'000	**2014**	2013
Operating results		
Revenue	**1,671**	6,577
Cost of services	**(1,867)**	(7,069)
Gross profit	**(196)**	(492)
Tax	**(4)**	(8)
	(200)	(500)
Exchange loss	**(5,022)**	(7,835)
	(5,222)	(8,335)

(c) Cumulative expense recognised in other comprehensive income relating to discontinued operations

US$'000	**2014**	2013
Release of exchange reserve	**(5,022)**	(8,331)

(d) The net cash flows attributable to the discontinued operations

US$'000	**2014**	2013
Operating cash flows	**(139)**	1,652

Please refer to Note 19 for the accounting policy on discontinued operations classified as held for sale.

Notes to the Financial Statements continued

22 PROVISION FOR ONEROUS CONTRACTS

	Group	
US$'000	2014	2013
At 1 January	656	–
Exchange differences	6	–
Utilised during the year (Note 26)	(662)	–
Charge for the year	100,906	656
At 31 December	100,906	656
Analysis of provisions		
Current	21,324	656
Non-current	79,582	–
	100,906	656

Accounting policy – Provision for onerous contracts

A provision for onerous contracts is recognised where the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them.

Critical accounting estimates and judgements – Provision for onerous contracts

The Group estimates the provision for its non-cancellable operating chartered-in contracts in relation to the Group's chartered-in vessels on a fleet basis for each type of vessel by calculating the difference between the total charter revenue and freight expected to be earned and the total value of future charter payments the Group is obligated to make for the remaining term of the chartered-in contracts.

The expected charter revenue and freight is derived from the aggregate of (a) the amount of revenue cover provided by existing contracts of affreightment, and (b) management estimates on the uncovered period by reference to current physical market rates, current trades of forward freight agreements and other relevant market information at the reporting date.

With all other variables held constant, if the expected freight rates for the uncovered chartered-in contracts increase/decrease by 4% from management estimates over the next 5 years, the provision for onerous contracts would decrease/increase by US$15.0 million.

23 LONG-TERM BORROWINGS

	Group	
US$'000	2014	2013
Non-current		
Secured bank loans (a)	507,223	582,968
Finance lease liabilities (b)	–	18,289
Convertible bonds (c)	313,422	107,403
	820,645	708,660
Current		
Secured bank loans (a)	160,810	107,438
Finance lease liabilities (b)	18,289	4,680
Convertible bonds (c)	–	216,447
	179,099	328,565
Total long-term borrowings	999,744	1,037,225

The fair value of long-term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Long-term borrowings are mainly denominated in United States Dollars.

Accounting policy – Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least twelve months after the balance sheet date.

(a) Secured bank loans

The bank loans as at 31 December 2014 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels with net book values of US$1,246,087,000 (2013: US$1,225,336,000) (Note 6(c));

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

(iii) cash and deposit of US$1,600,000 (2013: nil) (Note 16).

The Group's bank loans are repayable as follows:

	Group	
US$'000	**2014**	2013
Within one year	**160,810**	107,438
In the second year	**79,004**	165,475
In the third to fifth year	**191,048**	182,819
After the fifth year	**237,171**	234,674
	668,033	690,406
Average effective interest rate of bank loans (before hedging)	**2.5%**	2.6%

(b) Finance lease liabilities

At 31 December 2013 and 2014, the Group leased three vessels under finance leases. Under the terms of the leases, the Group has options to purchase these vessels at any time throughout the charter periods. Leases liabilities are effectively secured as the right to the leased vessels revert to the lessors in event of default.

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2014 are as follows:

	Group	
US$'000	**2014**	2013
Gross liabilities under finance leases Within one year	**19,318**	6,091
In the second year	**–**	19,318
	19,318	25,409
Less: future finance charges on finance leases	**(1,029)**	(2,440)
	18,289	22,969
Average effective interest rates on finance lease liabilities	**6.6%**	6.6%

	Group	
US$'000	**2014**	2013
Net liabilities under finance leases Within one year	**18,289**	4,680
In the second year	**–**	18,289
	18,289	22,969
Fair value of the finance lease liabilities	**18,735**	23,931

Accounting policy – Finance lease: where the Group is the lessee

Leases of assets where the lessee has substantially all the risks and rewards of ownership of such assets are classified as finance leases.

Where the Group is the lessee, finance leased assets are capitalised at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The finance lease liabilities are included in current and non-current borrowings. The finance charges are expensed in the income statement over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Notes to the Financial Statements continued

23 LONG-TERM BORROWINGS (CONTINUED)

(c) Convertible bonds

	Group			
	2014		2013	
US$'000	Face value	Liability component	Face value	Liability component
1.75% coupon due 2016	209,600	202,845	230,000	216,447
1.875% coupon due 2018	123,800	110,577	123,800	107,403
Total	333,400	313,422	353,800	323,850

The carrying value of convertible bonds approximate their fair values.

Key items	1.75% coupon due 2016	1.875% coupon due 2018
Issue size	US$209.6 million (US$230.0 million originally)	US$123.8 million
Issue date	12 April 2010	22 October 2012
Maturity date	12 April 2016 (6 years from issue)	22 October 2018 (6 years from issue)
Coupon – cash cost	1.75% p.a. payable semi-annually in arrears on 12 April and 12 October	1.875% p.a. payable semi-annually in arrears on 22 April and 22 October
Effective interest rate	4.70% charged to income statement	5.17% charged to income statement
Redemption Price	100%	100%
Conversion Price converting bonds into shares (Note)	HK$7.10 (with effect from 23 April 2014)	HK$4.84 (with effect from 23 April 2014)
Conversion at bondholders' options	After 11 January 2014, conversion can take place at any time at no premium	Any time on or after 2 December 2012
Bondholder put date and price for redemption at 100% of the principal amount	On 12 April 2014 (4 years from issue), certain bondholders exercised their right to require the Group to redeem all or some of their bonds resulting in US$20.4 million bonds being redeemed and cancelled on 14 April 2014. The remaining outstanding principal amount was reduced to US$209.6 million and there is no further bondholder put right.	On 22 October 2016 (4 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds. As this is an unconditional put option accounting standards require the Group to treat the convertible bonds as falling due on the put date.
Issuer call date and price for redemption at 100% of the principal amount, provided that the closing price of the Company's shares is at least at a 30% premium to the conversion price then in effect for thirty consecutive trading days	After 12 April 2014, the Group may redeem the bonds in whole.	After 22 October 2016, the Group may redeem the bonds in whole.

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

Accounting policy – Convertible bonds

Convertible bonds are accounted for as the aggregate of (i) a liability component and (ii) an equity component.

At initial recognition, the fair value of the liability component of the convertible bonds is determined using a market interest rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the conversion option as an equity component, recognised in other comprehensive income.

Transaction costs associated with the issuance of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds. The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

24 SHARE CAPITAL

	2014 Number of shares	2014 US$'000	2013 Number of shares	2013 US$'000
Authorised	**3,600,000,000**	**360,000**	3,600,000,000	360,000
Issued and fully paid				
At 1 January	**1,934,457,119**	**193,237**	1,936,049,119	193,605
Shares purchased by trustee of the SAS (a)	**(5,486,000)**	**(3,483)**	(10,692,000)	(6,514)
Shares granted to employees in the form of restricted share awards (a)	**8,140,000**	**4,215**	11,392,000	6,584
Shares transferred back to trustee upon lapse of restricted share awards (a)	**(3,845,000)**	**(2,228)**	(2,292,000)	(438)
Shares issued upon exercise of share options (b)	**400,000**	**40**	–	–
At 31 December	**1,933,666,119**	**191,781**	1,934,457,119	193,237

The issued share capital of the Company as at 31 December 2014 was 1,936,977,119 shares (2013: 1,936,577,119 shares). The difference from the number of shares in the table above of 3,311,000 (2013: 2,120,000) represents shares held by the trustee in relation to restricted share awards, amounting to US$1,916,400 (2013: US$420,400) as a debit to share capital.

(a) Restricted share awards

Restricted share awards under the Company's 2013 Share Award Scheme ("SAS") and previous Long Term Incentive Scheme ("LTIS") were granted to Executive Directors and certain employees. The SAS and LTIS under HKFRS is regarded as a special purpose entity of the Company.

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

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

000' shares	2014	2013
At 1 January	**27,810**	25,616
Granted	**8,140**	11,392
Vested	**(8,565)**	(6,906)
Lapsed	**(3,845)**	(2,292)
At 31 December	**23,540**	27,810

During the year, a total of 8,140,000 (2013: 11,392,000) restricted share awards were granted to certain employees. The market prices of the restricted share awards on the grant date represented the fair values of those shares.

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Report of the Directors
See History and Movement of Restricted Awards Granted

Notes to the Financial Statements *continued*

24 SHARE CAPITAL (CONTINUED)

(a) Restricted share awards (continued)

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

	2014		2013	
Sources of shares granted	Number of granted shares awards	Related movement US$'000	Number of granted shares awards	Related movement US$'000
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**5,486,000**	**3,483**	10,692,000	6,514
Shares transferred from the trustee	**2,654,000**	**732**	700,000	70
	8,140,000	**4,215**	11,392,000	6,584

The vesting periods and grant dates of the unvested restricted share awards as at 31 December 2014 are as follows:

		Vesting periods		
Date of grant	Number of unvested share awards	14 July 2015	14 July 2016	14 July 2017
1 June 2012	7,824,000	7,824,000	–	–
28 September 2012	736,000	736,000	–	–
15 March 2013	8,320,000	417,000	7,903,000	–
5 May 2014	5,793,000	169,000	171,000	5,453,000
13 August 2014	867,000	178,000	178,000	511,000
	23,540,000	9,324,000	8,252,000	5,964,000

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax) is included in equity.

(b) Share options

55,500,000 share options under the LTIS were granted to Executive Directors and certain employees on 14 July 2004 at an exercise price of HK$2.5 per share. They were fully vested on 14 July 2007 and expired on 14 July 2014. At 31 December 2013, all of the 400,000 outstanding share options were exercisable and were exercised in 2014. The related weighted average exercise prices of the Company's shares at the time of exercise was HK$4.95 per share.

25 RESERVES

	Group									
	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2014	602,050	(56,606)	51,620	(5,728)	2,640	1,870	(11,371)	584,475	526,582	1,111,057
Loss attributable to shareholders	–	–	–	–	–	–	–	–	(284 964)	(284,964)
Cash flow hedges										
– fair value losses	–	–	–	–	(23,564)	–	–	(23,564)	–	(23,564)
– transferred to finance costs in income statement	–	–	–	–	8,485	–	–	8,485	–	8,485
Release of exchange reserve upon:										
– disposal of harbour towage business	–	–	–	–	–	–	9,312	9,312	–	9,312
– disposal of a RoRo vessel	–	–	–	–	–	–	5,022	5,022	–	5,022
– disposal of OMSA JV	–	–	–	–	–	–	4,374	4,374	–	4,374
– repayment of shareholder loans by subsidiaries	–	–	–	–	–	–	(1,015)	(1,015)	–	(1,015)
Dividends paid (Note 29)	–	–	–	–	–	–	–	–	(12,385)	(12,385)
Currency translation differences	–	–	–	–	–	–	(7,986)	(7,986)	–	(7,986)
Share-based compensation (see Remuneration Report)	–	–	–	5,311	–	–	–	5,311	–	5,311
Share awards granted (Note 24)	–	–	–	(4,215)	–	–	–	(4,215)	–	(4,215)
Share awards lapsed (Note 24)	–	–	–	2,228	–	–	–	2,228	–	2,228
Shares issued upon exercise of share options	126	–	–	(38)	–	–	–	88	–	88
Share awards fully vested	1,928	–	–	(1,931)	–	–	–	(3)	3	–
Derecognition of equity component upon exercise of CB put options	–	–	(2,865)	–	–	–	–	(2,865)	1,850	(1,015)
Fair value losses on available-for-sale financial assets	–	–	–	–	–	(768)	–	(768)	–	(768)
At 31 December 2014	604,104	(56,606)	48,755	(4,373)	(12,439)	1,102	(1,664)	578,879	231,086	809,965
Representing:										
2014 proposed final dividend									12,489	
Others									218,597	
Retained profits at 31 December 2014									231,086	

Notes to the Financial Statements continued

25 RESERVES (CONTINUED)

	Group									
	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2013	599,846	(56,606)	51,620	(3,107)	(9,055)	1,705	16,557	600,960	537,456	1,138,416
Currency translation differences	–	–	–	–	–	–	(31,113)	(31,113)	–	(31,113)
Dividends paid (Note 29)	–	–	–	–	–	–	–	–	(12,397)	(12,397)
Release of exchange reserve upon:										
– disposal of RoRo vessels	–	–	–	–	–	–	8,331	8,331	–	8,331
– repayment of shareholder loans by subsidiaries	–	–	–	–	–	–	(5,146)	(5,146)	–	(5,146)
Cash flow hedges										
– fair value gain	–	–	–	–	7,126	–	–	7,126	–	7,126
– transferred to finance costs in income statement	–	–	–	–	4,569	–	–	4,569	–	4,569
Share awards granted (Note 24)	–	–	–	(6,584)	–	–	–	(6,584)	–	(6,584)
Share-based compensation (see Remuneration Report)	–	–	–	5,729	–	–	–	5,729	–	5,729
Share awards lapsed (Note 24)	–	–	–	438	–	–	–	438	–	438
Share awards fully vested	2,204	–	–	(2,204)	–	–	–	–	–	–
Profit attributable to shareholders	–	–	–	–	–	–	–	–	1,523	1,523
Fair value gain on available-for-sale financial assets	–	–	–	–	–	165	–	165	–	165
At 31 December 2013	602,050	(56,606)	51,620	(5,728)	2,640	1,870	(11,371)	584,475	526,582	1,111,057

Representing:	
2013 final dividend	12,385
Others	514,197
Retained profits at 31 December 2013	526,582

(a) Share premium mainly represents the net share issuance proceeds in excess of the nominal value credited to share capital.

(b) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the transfer of PB Vessels Holding Limited and its subsidiaries into the Company through an exchange of shares prior to the listing of the shares of the Company on the Stock Exchange in 2004.

	Company				
	Other reserves				
US$'000	Share premium	Staff benefits reserve	Subtotal	Retained profits	Total
At 1 January 2014	**602,050**	**(5,728)**	**596,322**	**666,548**	**1,262,870**
Dividends paid (Note 29)	**–**	**–**	**–**	**(12,385)**	**(12,385)**
Share-based compensation (see Remuneration Report)	**–**	**5,311**	**5,311**	**–**	**5,311**
Share awards granted (Note 24)	**–**	**(4,215)**	**(4,215)**	**–**	**(4,215)**
Share awards lapsed (Note 24)	**–**	**2,228**	**2,228**	**–**	**2,228**
Shares issued upon exercise of share options	**126**	**(38)**	**88**	**–**	**88**
Share awards fully vested	**1,928**	**(1,931)**	**(3)**	**3**	**–**
Loss attributable to shareholders	**–**	**–**	**–**	**(2,960)**	**(2,960)**
At 31 December 2014	**604,104**	**(4,373)**	**599,731**	**651,206**	**1,250,937**
Representing:					
2014 proposed final dividend				**12,489**	
Others				**638,717**	
Retained profits as at 31 December 2014				**651,206**	
At 1 January 2013	599,846	(3,107)	596,739	680,359	1,277,098
Loss attributable to shareholders	–	–	–	(1,414)	(1,414)
Share-based compensation (see Remuneration Report)	–	5,729	5,729	–	5,729
Share awards granted (Note 24)	–	(6,584)	(6,584)	–	(6,584)
Share awards lapsed (Note 24)	–	438	438	–	438
Share awards fully vested	2,204	(2,204)	–	–	–
Dividends paid (Note 29)	–	–	–	(12,397)	(12,397)
At 31 December 2013	602,050	(5,728)	596,322	666,548	1,262,870
Representing:					
2013 final dividend				12,385	
Others				654,163	
Retained profits as at 31 December 2013				666,548	

Loss attributable to shareholders of US$2,960,000 (2013: US$1,414,000) is dealt with in the financial statements of the Company.

26 OTHER INCOME AND GAINS

US$'000	2014	2013
Gains		
Gains on forward freight agreements (Note 14(e))	**4,170**	2,510
Gains on disposal of property, plant and equipment	**362**	525
Gains on disposal of subsidiaries	**–**	554
Utilisation of provision of onerous contracts (Note 22)	**662**	–
Exchange gains on repayment of shareholder loans by subsidiaries	**1,015**	5,146
	6,209	8,735

Notes to the Financial Statements continued

27 FINANCE INCOME AND COSTS

US$'000	2014	2013
Finance income		
Bank interest income	(4,014)	(7,109)
Other interest income	(6,149)	(7,353)
Finance lease interest income	(626)	(217)
Total finance income	(10,789)	(14,679)
Finance costs		
Borrowings wholly repayable within five years		
Interest on bank loans	4,485	4,951
Interest on convertible bonds	15,010	15,227
Interest on finance leases	1,411	5,830
Borrowings not wholly repayable within five years		
Interest on bank loans	14,821	9,692
Other finance charges (Note)	1,102	15,934
Net losses on interest rate swap contracts	6,881	3,793
	43,710	55,427
Less: amounts capitalised as PP&E (Note 6(e))	(158)	(3,305)
Total finance costs	43,552	52,122
Finance costs, net	32,763	37,443

Note: Other finance charges in 2013 included the expenses relating to the repayment of the finance lease liabilities upon the exercise of ten purchase options under finance leases amounting to US$15.3 million.

28 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. Shipping income from towage and RoRo and non-shipping income is subject to tax at prevailing rates in the countries in which these businesses operate.

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

US$'000	2014	2013
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2013: 16.5%)	636	641
Overseas tax, provided at the rates of taxation prevailing in the countries	596	720
Adjustments in respect of prior year	(15)	(193)
Tax charges	1,217	1,168

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the countries in which the Group operates, as follows:

US$'000	2014	2013
(Loss)/profit before taxation	(278,525)	11,026
Add: share of profits less losses/impairment of joint ventures	8,193	(5,028)
Add: share of profits less losses/impairment of associates	1,500	(1,542)
	(268,832)	4,456
Tax calculated at applicable tax rates	(26,553)	63
Income not subject to taxation	(143,012)	(108,810)
Expenses not deductible for taxation purposes	170,797	107,739
Tax losses incurred for which no deferred income tax asset was recognised	–	2,369
Overprovision of prior year	(15)	(193)
Taxation charge	1,217	1,168
Weighted average applicable tax rate	9.9%	1.4%

The Group has not recognised deferred income tax assets of US$5,948,000 (2013: US$10,951,000) in respect of tax losses amounting to US$19,917,000 (2013: US$36,503,000). These tax losses relate to Towage business and have no expiry date.

Critical accounting estimates and judgements – Income taxes

The Group is subject to income taxes in certain jurisdictions. There are transactions entered into where the ultimate tax determination and tax classification may be uncertain. Significant judgement is required in determining the provision for income taxes. The current provision in the balance sheet for income tax of US$1,572,000 represents management's estimates of the most likely amount of tax expected to be paid to the taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income tax in the period in which such determination is made.

Accounting policy – Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Accounting policy – Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements continued

29 DIVIDENDS

	2014			2013		
	HK cents per share	US cents per share	US$'000	HK cents per share	US cents per share	US$'000
Proposed final dividend	5.0	0.6	12,489	5.0	0.6	12,490
Dividend paid during the year	5.0	0.6	12,385	5.0	0.6	12,397

The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting on 22 April 2015.

Accounting policy

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Directors, where appropriate.

The dividend declared after the year end is not reflected as a dividend payable in the financial statements of that year, but will be reflected as an appropriation of retained profits for the following year.

30 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's SAS and LTIS and unvested restricted shares (Note 24(a)).

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 and LTIS (Note 24(a)) but after adjusting for the number of potential dilutive ordinary shares from convertible bonds, share options (Note 24(b)) and unvested restricted shares where dilutive.

		Basic & Diluted EPS 2014	Basic EPS 2013	Diluted EPS 2013
(Loss)/profit from continuing operations	(US$'000)	(279,742)	9,858	9,858
Loss from discontinued operations	(US$'000)	(5,222)	(8,335)	(8,335)
(Loss)/profit attributable to shareholders	(US$'000)	(284,964)	1,523	1,523
Weighted average number of ordinary shares in issue	('000)	1,908,712	1,935,299	1,935,490
Earnings per share				
– continuing operations	(US cents)	(14.66)	0.51	0.51
– discontinued operations	(US cents)	(0.27)	(0.43)	(0.43)
	(US cents)	(14.93)	0.08	0.08
Equivalent to				
– continuing operations	(HK cents)	(113.66)	3.95	3.95
– discontinued operations	(HK cents)	(2.12)	(3.34)	(3.34)
	(HK cents)	(115.78)	0.61	0.61

Diluted earnings per share for the year ended 31 December 2014 is the same as the basic earnings per share since the potential ordinary shares from convertible bonds and unvested restricted shares have antidilutive effect.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
US$'000	**2014**	2013
(Loss)/profit before taxation	**(283,743)**	2,699
Adjusted for:		
Assets and liabilities adjustments:		
Depreciation	**102,509**	82,680
Amortisation of land use rights	**74**	113
Provision for onerous contracts, net	**100,244**	656
Provision for impairment losses		
– Property, plant and equipment	**58,892**	–
– Trade receivables	**1,477**	1,530
Net unrealised losses/(gains) on derivative instruments not qualified as hedges, excluding interest rate swap contracts	**30,555**	(304)
Loss on disposal of harbour towage business (b)	**19,295**	–
Loss on disposal of OMSA JV (b)	**1,987**	–
Gains on disposal of property, plant and equipment	**(362)**	(525)
Gain on disposal of subsidiaries	**–**	(554)
Capital and funding adjustments:		
Share-based compensation	**5,311**	5,729
Results adjustments:		
Finance costs, net	**32,763**	37,443
Share of profits less losses/impairment of joint ventures	**8,193**	(5,016)
Share of profits less losses/impairment of associates	**1,500**	(1,542)
RoRo exchange loss	**5,022**	8,331
Exchange gain on repayment of shareholder loans by subsidiaries	**(1,015)**	(5,146)
Exchange differences	**(972)**	1,759
Profit before taxation before working capital changes	**81,730**	127,853
Decrease/(increase) in inventories	**23,961**	(24,798)
Increase in trade and other receivables	**(3,323)**	(14,814)
(Decrease)/increase in trade and other payables	**(7,222)**	11,352
Cash generated from operations	**95,146**	99,593

(b) Disposal of businesses

During 2014, the Group disposed its interest in harbour towage business and all its interest in a joint venture, OMSA. The effect of the disposals are as set out below:

US$'000	**Harbour towage**	OMSA JV
Net carrying values of business (i)	**(67,822)**	(7,027)
Considerations received	**–**	3,295
Considerations receivable	**57,839**	6,119
Exchange loss	**(9,312)**	(4,374)
Loss on disposal	**(19,295)**	(1,987)

(i) The net carrying value of harbour towage business disposed is as follow:

US$'000	**2014**
Property, plant and equipment	**61,549**
Inventories	**504**
Trade and other receivables	**7,006**
Trade and other payables	**(4,050)**
Cash and bank balances	**2,813**
	67,822

Notes to the Financial Statements continued

32 COMMITMENTS

(a) Capital commitments

	Group	
US$'000	2014	2013
Contracted but not provided for – vessel acquisitions and shipbuilding contracts	384,716	339,360
Authorised but not contracted for – vessel acquisitions and shipbuilding contracts	–	139,750
	384,716	479,110

Capital commitments for the Group that fall due in one year or less amounted to US$108.7 million (2013: US$114.6 million).

As at 31 December 2014 and 2013, the Company had no capital commitments.

Page 33 & 34
Vessel Commitments & Vessel Operating Lease Commitments

(b) Commitments under operating leases

Accounting policy – Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Critical accounting estimates and judgements – Classification of leases

The Group classifies its leases into either finance leases or operating leases taking into account of the spirit, intention, and application of HKAS 17 "Leases".

Management assesses the classification of leases by taking into account the market conditions at the inception of the lease, the period of the lease and the probability of exercising purchase options, if any, attached to the lease. For those leases that would not transfer ownership of the assets to the Group at the end of the lease term, and that it is not reasonably certain that the purchase options, if any, attached to the arrangements would be exercised, they are being treated as operating leases.

(i) The Group as the lessee – payments

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

US$'000	Dry bulk vessels	Tugs	Vessels total	Land and buildings	Total
At 31 December 2014					
Within one year	**201,864**	**228**	**202,092**	**3,497**	**205,589**
In the second to fifth year	**504,564**	**–**	**504,564**	**6,392**	**510,956**
After the fifth year	**171,164**	**–**	**171,164**	**1,301**	**172,465**
	877,592	**228**	**877,820**	**11,190**	**889,010**
At 31 December 2013					
Within one year	161,211	7,170	168,381	4,467	172,848
In the second to fifth year	474,783	455	475,238	10,516	485,754
After the fifth year	210,459	–	210,459	1,707	212,166
	846,453	7,625	854,078	16,690	870,768

The Group's operating leases for dry bulk vessels have terms ranging from less than 1 year to 11 years. Certain of the leases have escalation clauses, renewal rights and purchase options.

Accounting policy – Operating leases: where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease periods.

(ii) The Group as the lessor – receipts

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

US$'000	Dry bulk[(a)] vessels	Tugs	Total
At 31 December 2014			
Within one year	**24,388**	**4,311**	**28,699**
In the second to fifth year	**63,619**	**313**	**63,932**
After the fifth year	**55,507**	**–**	**55,507**
	143,514	**4,624**	**148,138**
At 31 December 2013			
Within one year	19,327	7,381	26,708
In the second to fifth year	63,619	2,594	66,213
After the fifth year	71,401	–	71,401
	154,347	9,975	164,322

(a) Operating lease commitments of the Group's minimum operating lease receipts for dry bulk vessels mainly include the commitments from two Post- Panamax vessels of US$135.0 million (2013: US$150.9 million).

The Group's operating leases have terms ranging from less than 1 year to 16 years.

Accounting policy – Operating leases: where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet and, where applicable, are depreciated in accordance with the Group's depreciation policies as set out in Note 6 Property, plant and equipment. Revenue arising from assets leased out under operating leases is recognised on a straight-line basis over the lease periods.

Notes to the Financial Statements continued

33 FINANCIAL LIABILITIES SUMMARY

This note should be read in conjunction with the liquidity risk in strategy Delivery & Risks – Enhancing Corporate & Financial Profile section on page 18. Maturity profile of the Group's financial liabilities, net-settled derivative financial instruments and gross-settled derivative financial instruments, representing contractual cash flows which include principal and interest elements where applicable, based on the remaining period from the balance sheet date to the contractual maturity date is as follows:

	Within one year		In the second year		In the third to fifth year		After the fifth year		Total	
US$'000	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Long-term borrowings										
– Gross liabilities under finance leases	19,318	6,091	–	19,318	–	–	–	–	19,318	25,409
– Secured bank loans	179,735	127,247	97,537	183,464	235,007	229,261	256,843	264,883	769,122	804,855
– Convertible bonds	5,989	6,346	213,755	6,346	128,443	362,777	–	–	348,187	375,469
Derivative financial instruments										
(i) Net-settled (a)										
– Interest rate swap contracts	6,164	7,412	3,250	5,095	36	3,430	–	1,575	9,450	17,512
– Bunker swap contracts	22,532	724	5,887	340	2,061	211	144	–	30,624	1,275
– Forward freight agreements	237	1,666	–	–	–	–	–	–	237	1,666
(ii) Gross-settled (b)										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	138,535	60,950	26,829	124,532	74,863	77,657	74,959	98,995	315,186	362,134
– inflow	(132,349)	(63,362)	(24,390)	(131,695)	(71,270)	(80,416)	(77,120)	(110,431)	(305,129)	(385,904)
Net outflow/(inflow)	6,186	(2,412)	2,439	(7,163)	3,593	(2,759)	(2,161)	(11,436)	10,057	(23,770)
Current liabilities										
Trade and other payables	120,141	131,933	–	–	–	–	–	–	120,141	131,933

(a) Net-settled derivative financial instruments represent derivative liabilities whose terms result in settlement by a netting mechanism, such as settling the difference between the contract price and the market price of the financial liabilities.

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

The Company was not exposed to any individual significant liquidity risk in 2014 and 2013.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions (that do not fall under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules) carried out in the normal course of the Group's business and on an arm's length basis were as follows:

(a) Sales of services

US$'000	2014	2013
Charter-hire income received from OMSA (i)	15,386	26,564
Management service fee received from OMSA (ii)	4,179	8,118

(i) The Group leased out certain vessels to OMSA.

(ii) The Group provided technical and other management services to OMSA.

OMSA was a joint venture that was disposed in 2014.

(b) Key management compensation

For the key management compensation (including Directors' emoluments) and the accounting policy on employee benefits, please refer the Remuneration Report on page 59.

35 FINANCIAL GUARANTEES

At 31 December 2014, the Company has given corporate guarantees with maximum exposures of US$675.0 million (2013: US$671.2 million) for certain subsidiaries of Pacific Basin Dry Bulk and PB Towage segments in respect of loan facilities granted to the subsidiaries.

Accounting policy

Financial guarantee contracts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary holder of the guarantee (i.e. the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

36 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company has no contingent liabilities and contingent assets at 31 December 2014 and 2013.

Accounting policy

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements when an outflow of economic resources is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

37 EVENTS AFTER THE BALANCE SHEET DATE

The transaction to sell the Group's harbour towage business completed in February 2015. This disposal, together with the refund of the business' cash balance and the sale of a tug and a barge to the same buyer, generated proceeds equivalent to approximately US$63 million.

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PB Towage
Our Performance and Business Highlights

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES

At 31 December 2014, the Company has direct and indirect interests in the following principal subsidiaries:

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
Shares held directly:				
Others:				
PB Vessels Holding Limited	BVI	US$1,191,118,775	100	Investment holding
PB Management Holding Limited	BVI	US$12,313	100	Investment holding
PB Issuer (No. 2) Limited	BVI	US$1	100	Convertible bond issuer
PB Issuer (No. 3) Limited	BVI	US$1	100	Convertible bond issuer
Shares held indirectly:				
Pacific Basin Dry Bulk:				
Astoria Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Baker River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Baltic Sea Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Barrow Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Bass Strait Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Bell Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Bernard (BVI) Limited	BVI/Int'l	US$51,001	100	Vessel owning and chartering
Bonny Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Bright Cove Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Cape York Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Champion Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Cherry Point Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Chiloe Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Columbia River Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Corio Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Cramond Island Limited	HK	HK$1	100	Vessel owning
Delphic Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	HK/Int'l	HK$1	100	Vessel owning and chartering
Eastern Cape Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Elizabay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Elizabeth Castle Limited	BVI/Int'l	US$1	100	Vessel chartering
Elizabeth River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Esperance Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Everclear Shipping (BVI) Limited	BVI/Int'l	US$31,001	100	Vessel owning and chartering
Finest Solution Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Francesca Shipping (BVI) Limited	BVI/Int'l	US$30,001	100	Vessel owning and chartering
Future Sea Limited	HK/Int'l	HK$1	100	Vessel owning and chartering

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
Gold River Vessel Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Good Shape Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Hainan Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Helen Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Honey Island Limited	HK	HK$1	100	Vessel owning
Illovo River Limited	HK	HK$1	100	Vessel owning
Imabari Logger Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Impression Bay Limited	HK	HK$1	100	Vessel owning
Incheon Bay Limited	HK	HK$1	100	Vessel owning
Indian Ocean Limited	HK	HK$1	100	Vessel owning
Indigo Lake Limited	HK	HK$1	100	Vessel owning
Isabela Island Limited	HK	HK$1	100	Vessel owning
Jamaica Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
James Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jericho Beach Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jervis Bay Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jiangmen Trader Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Judith Shipping (BVI) Limited	BVI/Int'l	US$38,001	100	Vessel owning and chartering
Jules Point Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jumeirah Beach Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Kaiti Hill Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Kanda Logger Limited	HK	HK$1	100	Vessel owning
Key West Shipping Limited	HK	HK$1	100	Vessel owning
Kodiak Island Limited	HK	HK$1	100	Vessel owning
Kultus Cove Limited	HK	HK$1	100	Vessel owning
Labrador Shipping (BVI) Limited	BVI/Int'l	US$38,001	100	Vessel owning and chartering
Lake Stevens Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Liberty Vessel Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Luzon Strait Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Marsden Point Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Matakana Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mega Fame Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Mount Adams Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Mount Aso Limited	HK	HK$1	100	Vessel owning
Mount Baker Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mount Hikurangi Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mount Rainier Limited	HK/Int'l	HK$1	100	Vessel owning and chartering

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES (CONTINUED)

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
Mount Seymour Limited	HK	HK$1	100	Vessel owning
Newman Shipping (BVI) Limited	BVI/Int'l	US$26,001	100	Vessel owning and chartering
Nobal Sky Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Oak Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Olive Bay Limited	HK	HK$1	100	Vessel owning
Orange River Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Osaka Bay Limited	HK	HK$1	100	Vessel owning
Otago Bay Limited	HK	HK$1	100	Vessel owning
Otago Harbour Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Othello Shipping (BVI) Limited	BVI/Int'l	US$26,593	100	Vessel owning and chartering
Oyster Bay Limited	HK	HK$1	100	Vessel owning
Pacific Basin Chartering Limited	BVI/Int'l	US$10	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 2) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 3) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 4) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 5) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 6) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 7) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 8) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 9) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 10) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 11) Limited	HK/Int'l	HK$1	100	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	HK/Int'l	HK$1	100	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	HK/Int'l	HK$1	100	Vessel chartering
Port Alberni Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Alfred Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Alice Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Port Angeles Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Botany Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Puget Sound Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Supreme Effort Group Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Swan River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Tampa Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Uhland Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Verner Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
West Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
White Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Zhoushan Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
PB Towage:				
PB Offshore (No.2) Limited	Cook/Int'l	US$10	100	Tug owning and chartering
PB Pearl Limited	Cook/Int'l	US$2	100	Tug & barge owning and chartering
PB Pride Limited	Cook/Int'l	US$2	100	Tug & barge owning and chartering
PB Progress Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Sea-Tow Asia Pte. Ltd.	Singapore	US$1	100	Tugs chartering
PB Sea-Tow (Australia) Pty Ltd	Australia	AUD1	100	Ship management services
PB Sea-Tow (Australia) Crewing Pty Ltd	Australia	AUD1	100	Crew management services
PB Sea-Tow (Australia) Marine Operations Pty Ltd	Australia	AUD1	100	Operations services
PB Sea-Tow (BVI) Limited	BVI/Int'l	US$1	100	Ship management services
PB Sea-Tow Crewing (NZ) Limited	New Zealand	NZD1	100	Crew management services
PB Sea-Tow Niugini Pte. Ltd.	Singapore	S$1	100	Tugs chartering and operation
PB Sea-Tow (NZ) Limited	New Zealand	NZD1	100	Ship management services
PB Sea-Tow Operations (NZ) Limited	New Zealand	NZD1	100	Ship management services
PB Towage (No.1) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage (No.2) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage (No.3) Limited	Cook/Int'l	US$2	100	Barges owning and chartering
PB Towage (No.4) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage (No.5) Limited	Cook/Int'l	US$2	100	Tugs owning and chartering
PB Towage Asset (No.2) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage Middle East Limited	Cook/Int'l	US$2	100	Ship management services
True Colour Ventures Limited	BVI	US$1	100	Operations services
PB RoRo:				
Prospect Number 59 Limited	E&W	GBP1	100	Vessel owning and chartering
Prospect Number 60 Limited	E&W	GBP1	100	Vessel owning and chartering
Others:				
Asia Pacific Capital Developments Limited 亞太資本發展有限公司	HK	HK$1	100	Property holding
Pacific Basin Agencies Limited 太平洋航運代理有限公司	HK/Int'l	HK$1	100	Holding company of Japan
Pacific Basin Handymax Limited	HK	HK$1	100	Ship management services
Pacific Basin Handymax (UK) Limited	E&W	GBP1	100	Ship management services
Pacific Basin Handysize Limited	BVI/HK	US$10	100	Ship management services
Pacific Basin Handysize (HK) Limited	HK	HK$1	100	Ship management services
Pacific Basin Handysize (UK) Limited	E&W	GBP2	100	Ship management services

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES (CONTINUED)

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
Pacific Basin Shipping (Australia) Pty Ltd [1]	Australia	AUD1	100	Shipping consulting services
Pacific Basin Shipping (Canada) Limited	BC, Canada	1 common share without par value	100	Shipping consulting services
Pacific Basin Shipping (Chile) Limitada	Chile, Santiago	Chilean pesos equivalent to US$6,000	100	Shipping consulting services
Pacific Basin Shipping (Germany) GmbH	Germany	EUR25,000	100	Shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運(香港)有限公司	HK	HK$20	100	Ship agency services
Pacific Basin Shipping Middle East DMCC [1]	Dubai Multi Commodities Centre (DMCC)	AED500,000	100	Shipping consulting services
Pacific Basin Shipping (New Zealand) Limited [1]	New Zealand	100 shares without par value	100	Shipping consulting services
Pacific Basin Shipping (South Africa) Pty Ltd [1]	Republic of South Africa	120 shares without par value	100	Shipping consulting services
Pacific Basin Shipping (UK) Limited	E&W	GBP2	100	Shipping consulting services
Pacific Basin Shipping (USA) Inc.	USA	US$1,000	100	Shipping consulting services
PB Commerce Limited	BVI/HK	US$1	100	Investment holding
PB Maritime Personnel Inc.[1]	The Philippines	PHP$17,300,000	100	Crewing services
PBS Corporate Secretarial Limited	HK	HK$1	100	Secretarial services
Taihua Shipping (Beijing) Limited [1 & 2] 太華船務(北京)有限公司	PRC	US$4,000,000 (registered capital)	100	Agency and ship management services

(1) The financial statements of these subsidiaries have not been audited by PricewaterhouseCoopers. The aggregate net assets and net results for the year attributable to the shareholders of the Group amounted to approximately US$6,492,000 (2013: US$8,356,000 profit) and US$172,000 loss (2013: US$521,000 loss) respectively.

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

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

Independent Auditor's Report

To the shareholders of Pacific Basin Shipping Limited

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 70 to 122, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 February 2015

Group Financial Summary

US$'000		2014	2013	2012	2011	2010
Results						
Continuing operations						
Revenue		**1,718,454**	1,708,792	1,443,086	1,312,789	1,268,542
Gross (loss)/ profit		**(39,624)**	55,097	85,315	108,437	159,329
(Loss)/profit before taxation		**(278,525)**	11,026	53,845	122,758	104,791
Taxation		**(1,217)**	(1,168)	(1,624)	(178)	(453)
(Loss)/profit for the year		**(279,742)**	9,858	52,221	122,580	104,338
Discontinued operations[1]						
Loss for the year		**(5,222)**	(8,335)	(210,693)	(90,598)	–
Eligible (loss)/profit attributable to shareholders		**(284,964)**	1,523	(158,472)	31,982	104,338
Balance Sheet						
Total assets		**2,307,516**	2,537,446	2,470,275	2,431,752	2,555,388
Total liabilities		**(1,305,770)**	(1,233,152)	(1,138,254)	(946,837)	(1,010,497)
Total equity		**1,001,746**	1,304,294	1,332,021	1,484,915	1,544,891
Net borrowings		**636,319**	551,163	178,013	160,818	156,029
Total cash and deposits		**363,425**	486,062	753,458	618,221	703,437
Cash Flows						
From operating activities		**93,652**	98,142	148,737	159,361	198,577
From investment activities of which		**(131,683)**	(114,186)	(247,600)	(103,443)	(462,154)
gross investment in vessels		**(194,472)**	(456,497)	(188,295)	(167,592)	(540,612)
From financing activities		**(112,536)**	36,773	110,181	(166,322)	(96,532)
Other Data						
Basic EPS	US cents	**(15)**	0.1	(8)	2	5
Dividends per share[2]	US cents	**1**	1	1	1	3
Eligible profit payout ratio		**>100%**	>100%	>100%	78%	51%
Cash flows from operating activities per share	US cents	**5**	5	8	8	10
Net book value per share	US cents	**52**	67	69	77	80
Dividends	US$'000	**12,489**	12,385	12,397	24,895	53,441

1 The financial information for the year ended 31 December 2010 was extracted from the Group Financial Summary in the 2010 Annual Report. No retrospective restatement for the discontinued operations was made to such information.

2 The 2014 dividends represent the proposed final dividend of HK 5 cents per share.

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Group financial summaries since listing

Corporate Information

BOARD OF DIRECTORS

Executive Directors

Mr. David M. Turnbull (Chairman)
Mr. Mats H. Berglund (Chief Executive Officer)
Mr. Andrew T. Broomhead (Chief Financial Officer)
Mr. Chanakya Kocherla (Chief Technical Officer)

Independent Non-executive Directors

Mr. Patrick B. Paul
Mr. Robert C. Nicholson
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw
Mrs. Irene Waage Basili

Page 46
Our Directors
Directors' Biographies

PRINCIPAL BOARD COMMITTEES

Executive Committee

Mr. Mats H. Berglund (Chairman)
Mr. David M. Turnbull
Mr. Andrew T. Broomhead
Mr. Chanakya Kocherla

Audit Committee

Mr. Patrick B. Paul (Chairman)
Mr. Robert C. Nicholson
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw
Mrs. Irene Waage Basili

Remuneration and Nomination Committees

Mr. Robert C. Nicholson (Chairman)
Mr. Patrick B. Paul
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw
Mrs. Irene Waage Basili

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SOLICITORS

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COMPANY SECRETARY

Ms. Mok Kit Ting, Kitty, CPA
e-mail: companysecretary@pacificbasin.com

STOCK CODE

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

LISTING VENUE/LISTING DATE

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")/14 July 2004

TOTAL SHARES IN ISSUE

1,936,977,119 as at 31 December 2014

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