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# Pacific Basin Shipping Limited

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

## ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors (the “Board”) of Pacific Basin Shipping Limited (“Pacific Basin” or the “Company”) is pleased to announce the results of the Company and its subsidiaries (collectively the “Group”) for the year ended 31 December 2017 as follows:

### BUSINESS HIGHLIGHTS

#### Group

- Significantly better dry bulk market conditions supported a much improved and positive net result in 2017
- We recorded a net profit of US\$3.6 million and EBITDA of US\$133.8 million, a year-on-year improvement of US\$90 million and US\$111 million respectively
- Our Handysize daily TCE (time-charter equivalent) earnings increased 25% year on year and outperformed the market index by 15%
- We took delivery of our final newbuildings and recommenced secondhand acquisitions
- Our innovative combination of a share issue and private placement enabled us to grow our fleet with 5 modern ships while strengthening our balance sheet
- Our year-end cash position was US\$245 million with net gearing of 35%
- By the year end, we had fully drawn down our remaining long tenor Japanese export credit and other committed facilities

#### Fleet

- Our last 7 newbuildings delivered in the first half of the year
- We purchased 8 modern ships at still historically low asset values
- Our owned fleet expanded to 105 ships on the water by year end, and one additional vessel joined in early 2018
- We continue to supplement our core fleet with short-term chartered ships with which we typically make a margin throughout the market cycle
- Including chartered ships, we operated an average of 241 dry bulk vessels overall in 2017
- We have covered 50% of our Handysize and 69% of our Supramax revenue days for 2018 at US\$9,280 and US\$11,400 per day net respectively
- We have further reduced our owned vessel operating expenses to US\$3,840 per day primarily through scale benefits and good cost control




#### Outlook & position

- The general market improvement since early 2016 is encouraging, and supply and demand fundamentals are now more positive
- We are cautiously optimistic for a continued market recovery albeit with some volatility along the way
- A positive global economic and commodity demand outlook and lower newbuilding deliveries bode well for dry bulk in the medium term, but threats include the potential for reduced Chinese coal and ore imports, excessive new ship ordering and higher ship operating speeds
- Our healthy cash and net gearing positions enhance our ability to take advantage of opportunities and attract cargo as a strong partner
- We will continue to look at good quality secondhand ship acquisition opportunities as prices are still historically low
- We do not intend to order newbuildings in the medium term, and will watch technological and regulatory developments closely

US\$ million	Year Ended 31 December	
	2017	2016
Revenue	1,488.0	1,087.4
EBITDA #	133.8	22.8
Underlying Profit/(Loss)	2.2	(87.7)
Profit/(Loss) Attributable to Shareholders	3.6	(86.5)
Basic Earnings per share (HK cents)	0.7	(20.4)
Proposed Final and Full Year Dividend per share (HK cents)	-	-

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

#### Our Fleet – 222 Ships (as at 31 January 2018)

		Vessels in operation		Total
		Owned	Chartered	
Handysize		80	59	139
Supramax		25	56	81
Post-Panamax		1	1	2
Total		106	116	222

# CHAIRMAN'S STATEMENT

## A better year in dry bulk

2017 was a markedly better year for dry bulk shipping compared to 2016, but that improvement was from an extremely low base. There is still some way to go before the dry bulk market sees sustained healthy freight earnings, but supply and demand fundamentals are now more positively balanced and we are cautiously optimistic for a continued market recovery albeit with some volatility along the way.

The improved market conditions and our continued outperformance of the market in terms of vessel earnings enabled Pacific Basin to generate significantly larger operating cash flows and our first positive P&L net result since 2013.

We expect several positive initiatives and developments of 2017 to benefit our Company in 2018 and beyond, enhancing our position from which to capitalise on opportunities and improved market conditions ahead.

## Effective platform for a sustainable business

We took delivery of the last of our owned newbuildings and purchased several high-quality modern vessels to further enhance our world-leading fleet of minor bulk ships. The scale of our fleet and uniform design of our interchangeable ships enable our teams in 12 offices to provide the most reliable freight cover to our customers around the world while combining our ships and cargoes to achieve high laden utilisation and TCE earnings that outperform the market indices.

We concluded our exit from the towage business, opened a new commercial office in Brazil, relocated our Hong Kong headquarters to a better and more cost-efficient office, and rolled-out our new integrated ship management software. We also pursued an innovative fundraising (comprising consideration shares and cash raised through a private placement) to purchase five vessels while enhancing our operating cash flow and balance sheet strength. Mats Berglund will elaborate on all of these initiatives in his Chief Executive's Review.

Our initiatives helped to maintain a balance sheet with total cash and deposits of US\$245 million at 31 December 2017 and net gearing of 35% (net debt divided by net book value of our owned fleet). Important cost saving initiatives helped to further reduce our daily vessel operating expenses, and improve our efficiencies enhancing our platform for success in the improving market ahead.

We again received several awards in 2017 recognising the quality of our customer focus and service delivery, technical management, corporate governance and investor relations. I would like to single out the Company of the Year award we received at the Lloyd's List Global Awards which recognised our performance and healthy balance sheet under difficult market circumstances, a high level of customer satisfaction, and innovative financing.

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

## Dividend

In view of the small net profit in 2017, the Board recommends not to pay a dividend for 2017 (2016: nil). However, we continue to target a pay-out ratio of at least 50% of net profits excluding disposal gains once we return to a more meaningful level of profitability.

## Changes to our board

Chanakya Kocherla and Andrew Broomhead retired in April and August 2017 stepping down from their Executive Director roles and their respective positions as Chief Technical Officer and Chief Financial Officer. Our technical and ship management organisation has since been led by our Fleet Director, and Peter Schulz joined us in August as our new Chief Financial Officer and a member of the Company's Executive Committee.

Our Board currently comprises two Executive Directors and six Independent Non-executive Directors who bring a broad range of commercial, strategic, operational, legal, financial and accounting experience and a strong shipping and commodities expertise to our Board. I would like to thank our Board of Directors for their valuable contributions in all aspects of the Company's oversight.

A commitment to strong corporate governance – sound internal controls, transparency and accountability to all stakeholders – continues to underpin all components of our business and seeks to enhance stakeholder confidence in Pacific Basin as a partner and a place to invest. I thank all our stakeholders for their valued support of our Company.

**David Turnbull**  
*Chairman*

Hong Kong, 28 February 2018

# CHIEF EXECUTIVE'S REVIEW

## Financial results

Dry bulk freight market conditions improved significantly in 2017 from a historically low base in 2016 which, combined with our high laden utilisation and competitive cost structure, enabled us to record a much improved and positive net result.

We made a net profit of US\$3.6 million in 2017 (2016: US\$86.5 million net loss) and EBITDA of US\$133.8 million (2016: US\$22.8 million). Basic EPS was a positive HK0.7 cents.

## Performance overview

### Improved but still challenging market conditions

Freight market indices in 2017 followed a similar seasonal pattern as in 2016, although at a significantly higher level. The market improvement was largely demand driven with stronger seaborne trade growth apparent across most dry bulk cargo categories.

Stronger Chinese industrial activity drove robust growth in coal and iron ore imports and, more importantly for us, in the trade in minor bulks. Global grain trade expanded more than expected primarily due to record South American grain export volumes. Longer trade distances also supported stronger global dry bulk seaborne tonne-mile demand which Clarksons Research estimate to have grown 5.1% in 2017.

The improved earnings environment resulted in much reduced scrapping which, combined with new ship deliveries, led to total dry bulk fleet net growth of 3.0% and 3.6% in the global Handysize and Supramax fleets.

Despite the gradual improvement, the market remained challenging during most of 2017 with average annual freight rates at historically weak levels.

### Pacific Basin outperforms

We generated average Handysize and Supramax daily TCE earnings of US\$8,320 and US\$9,610 per day net, outperforming the BHSI and BSI indices by 15% and 8% respectively.

Our TCE premium and operating margins are driven by our ability to draw on our experienced teams, global office network, strong cargo support and large fleet of high-quality interchangeable ships in a way that optimises ship and cargo combinations for maximum utilisation.

### Positive initiatives

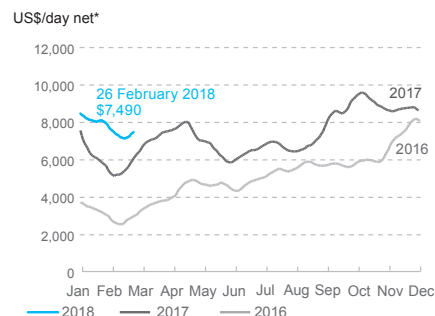
In the first half of the year, we completed our owned vessel newbuilding programme with the delivery of seven newbuildings of modern, efficient designs which we committed to build in 2013. We used the still historically low asset values to purchase two high quality secondhand Handysize vessels. We also purchased a secondhand Supramax and sold an older, smaller Supramax, thereby trading up to a vessel of better design and longer life at an attractive price.

In August, we committed to acquire five modern, efficient dry bulk vessels funded by a combination of (a) new Pacific Basin shares issued to the sellers, (b) cash raised through a share placement, and (c) cash from our existing cash resources. This innovative transaction enabled immediate equity financing and enhances our operating cash flow, EBITDA and balance sheet. Four of the five vessels delivered into our fleet by year end, and the fifth joined in January 2018.

These latest acquisitions have increased our owned fleet to 106 ships on the water, grown the proportion of our owned versus chartered ships (especially in Supramax), and reduced our owned vessel daily break-even levels.

We have grown our owned fleet more than threefold since 2012 as part of our refocus on dry bulk and our divestment of non-core businesses. Including chartered vessels, we operated an average of 241 ships overall in 2017 and currently operate about 220 ships.

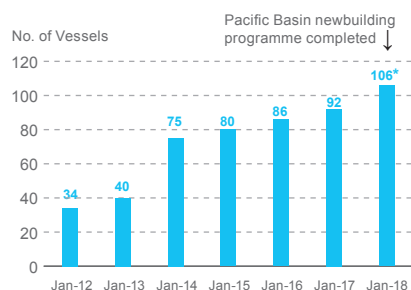
Handysize Market Spot Rates in 2016 – 2018



\* excludes 5% commission

Source: Baltic Exchange, data as at 26 February 2018

Pacific Basin Owned Dry Bulk Vessels



\* Including one Supramax ship delivered on 9 January 2018

We completed the sale of our final tug during the third quarter of 2017, thereby concluding our exit from our non-core towage activity.

Our new commercial office in Rio de Janeiro has contributed valuable new business since it was established early in 2017 to help grow our cargo volumes and support our many customers on the east coast of South America while enabling us to cover more fully all regions in the Atlantic.

In May, we relocated our headquarters to Wong Chuk Hang, about 15 minutes from Hong Kong's Central business district. We now benefit from a better, more energised, collaborative and productive office with a markedly lower rent.

We continue to invest in state of the art systems with our most notable project being the on-going implementation of our new integrated ship management software.

In August, Pacific Basin became an eligible stock for southbound trading under the Shenzhen-Hong Kong Stock Connect programme effective from September, which helps to enhance our profile in the mainland Chinese capital markets. We hope that this will contribute to more interest in and trading liquidity of our stock in the long term.

In September, Pacific Basin won the Company of the Year award at the Lloyd's List Global Awards. To be named the best shipping company in the world is a great honour and welcomed recognition of both our seagoing and shore staff's combined contributions that drive us towards our vision of being the first choice partner for customers and other stakeholders.

## Liquidity & balance sheet

As at 31 December 2017, we had cash and deposits of US\$245 million with our final newbuildings all paid for and delivered, except for one resale that joined our fleet in January 2018. We drew down our remaining long tenor Japanese export credit and other committed facilities following the delivery of our newbuildings resulting in net borrowings of US\$636 million, which is 35% of the net book value of our owned vessels at the year end. After paying for the vessel that delivered in January, we have 10 unmortgaged ships.

Our solid balance sheet and strong corporate profile combine with our robust business model and track record to set us apart as a preferred, strong, reliable and safe partner for customers, finance providers and other stakeholders.

## Strategy and position

### Well positioned for a continued gradual recovery

The general market improvement since early 2016 is encouraging and, with supply and demand fundamentals now more positive, we are cautiously optimistic for a continued market recovery albeit with some volatility along the way.

The outlook for favourable global GDP growth bodes well for dry bulk demand, and supply is expected to be kept in check by the continued gap between newbuilding and secondhand prices and the uncertain impact of new regulations on ship designs, both of which cause many shipowners in our segments to refrain from ordering new ships.

Tonne-mile demand growth of 5.1% in 2017 was higher than expected, but even if growth slows in 2018, we expect it will still exceed supply thus supporting further improvement in the demand-supply balance.

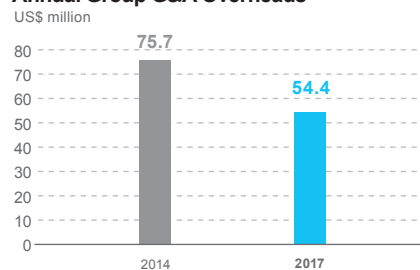
Potential negative factors include a possible reduction in China's difficult-to-predict coal imports and, on the supply side, the risk of excessive new ordering and increased ship operating speeds. Continued commodity demand growth, scrapping of older and poorly designed ships, and limited ordering are required for a further improved market balance.

We continue to achieve cost savings without impacting maintenance or safety. Primarily through scale benefits and other efficiencies, we have gradually reduced our daily vessel operating expenses by 12% since 2014 to US\$3,840 in 2017, and we have reduced our total G&A overheads by 28% to US\$54 million over the same period despite operating a larger fleet.

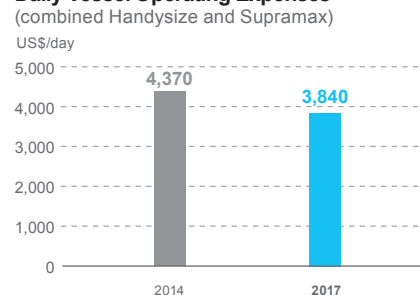
This has helped us reduce the current breakeven level on our owned Handysize and Supramax ships to about US\$8,300 and US\$9,100 per day respectively after G&A overheads.

We are well positioned for a recovering market and, based on our current fleet and commitments, a change of US\$1,000 per day in annual average TCE market rates would be expected to change our net results by about US\$35-40 million per year.

**Annual Group G&A Overheads**



**Daily Vessel Operating Expenses**



Our healthy cash and net gearing positions enhance our ability to take advantage of opportunities to grow our business and attract cargo as a strong partner. We will continue to look at good quality secondhand ship acquisition opportunities as prices are still historically low, resulting in reasonable break-even levels and shorter payback times.

We do not intend to order newbuildings in the medium term, and will watch technological and regulatory developments closely. There remains extra capacity in the existing global fleet through potentially higher operating speed, and the market does not need more newbuildings. What we shipowners need is a more reasonable level of profitability. Moreover, today's newbuildings offer only limited efficiency benefits over good quality Japanese-built secondhand ships and, in our view, the risk and payback time for newbuildings is currently excessive due to several uncertainties in our market, including:

- (i) how best to comply with the global sulphur emissions cap from 2020;
- (ii) which ballast water treatment system to install;
- (iii) questions about the future price, types and availability of fuel;
- (iv) potential additional new regulations regarding, for example, NO<sub>x</sub> and CO<sub>2</sub> emissions; and
- (v) faster and potentially more significant technological developments in the longer term.

These uncertainties, the attraction of low secondhand prices and new accounting rules requiring time charters to be capitalised from 2019 are discouraging new ship ordering in our segment.

We welcome stricter environmental regulation, but we do not think sulphur scrubbers are an effective solution technically or environmentally, and we much prefer a mandate for everyone to burn cleaner fuel and the level playing field this would create. A further consequence of a global adoption of low sulphur fuel is that its higher cost will prevent ship operating speeds from increasing, contributing to lower emissions and a better supply-demand balance.

The extra capex investment for ballast water treatment systems (and potentially for scrubbers) and the higher cost of low sulphur fuel will penalise the oldest and worst performing ships, potentially driving such ships to demolition.

Overall, we believe these new regulations will be positive for the supply-demand balance and benefit larger, stronger companies with high quality fleets that are better positioned to adapt and to cope practically and financially with compliance.

We will continue to focus on our world-leading Handysize and Supramax dry bulk business where our strategy is to be the best operator maximising our fleet's utilisation and TCE earnings by leveraging all the key attributes of our business model. Minor bulk shipping demand is characterised by diversified geographical, cargo and customer profiles. This, combined with our large fleet of interchangeable ships and worldwide office network, allows for the combination of cargoes to achieve higher laden utilisation, which is exactly our strategy and how we can deliver value over market earnings.

We have a robust business model, experienced staff, a quality fleet and strong balance sheet that position us well to navigate and benefit from a recovering market.

We thank all our stakeholders for your continued support.

**Mats Berglund**  
Chief Executive Officer

## Dry Bulk Outlook

### Possible market drivers in the medium term

#### Opportunities

- Strong industrial growth and infrastructure investment in China and beyond enhancing demand for dry bulk shipping
- Positive and widely spread growth outlook for all major economic areas
- Continued strong grain demand primarily for animal feed due to shift towards meat-based diet
- Environmental policy in China encouraging shift from domestic to imported supply of resources
- Lower newbuilding deliveries in the medium term and continued low new ship ordering and shrinking orderbook
- Environmental regulations encouraging ship scrapping
- Periods of higher fuel oil prices encouraging slower ship operating speeds which decreases supply

#### Threats

- Reduction in Chinese industrial growth and investments impacting demand for dry bulk shipping
- Environmental policy in China encouraging greater shift to renewable energy, possibly impacting coal imports
- Increased protectionism dampening trade by favouring domestic supplies over foreign imports
- Excessive new ship ordering if the price gap between newbuilding and secondhand ships closes
- Reduced scrapping due to improved market conditions may be insufficient to offset new ship deliveries
- Periods of low fuel prices supporting faster ship operating speeds which increases supply



# MARKET & BUSINESS REVIEW

## Freight market summary

Dry bulk freight market conditions improved significantly in 2017 from a historically low base in 2016. Handysize and Supramax spot market rates averaged US\$7,250 and US\$8,880 per day net respectively in 2017, representing a substantial 46% and 52% improvement in average earnings year on year.

**US\$7,250 net** **↑ 46%**

Handysize 2017 average market spot rate

**US\$8,880 net** **↑ 52%**

Supramax 2017 average market spot rate

Following a similar pattern as in 2016, although at a significantly higher level, freight market indices experienced a short seasonal decline at the start of the year, recovery after Chinese New Year and a general strengthening thereafter. Handysize and Supramax spot market earnings in the fourth quarter reached their highest since early 2014.

Against the backdrop of reduced scrapping and increased fleet growth, the market improvement in 2017 was largely demand driven with stronger seaborne trade growth apparent across most dry bulk cargo categories. Stronger Chinese industrial activity drove robust growth in both major and minor bulks, and record South American grain exports underpinned stronger than expected global grain trades.

As significant as the improved market conditions are, the dry bulk market overall in 2017 was still in the bottom third of the 33 years since the dry bulk index began.

## Key supply developments

The global fleet of 25,000-41,999 dwt Handysize and 42,000-64,999 dwt Supramax ships grew 2.6% and 4.1% net respectively in 2017, and overall dry bulk capacity expanded 3.0% (2016: +2.2%) as much reduced scrapping outweighed the benefit of fewer newbuilding deliveries.

As expected due to the declining orderbook, newbuilding deliveries reduced to 4.7% of existing dry bulk capacity, the lowest level since 2003.

Scrapping reduced to 1.7% of existing dry bulk capacity and 1.6% of Handysize capacity due to the markedly improved freight market conditions.

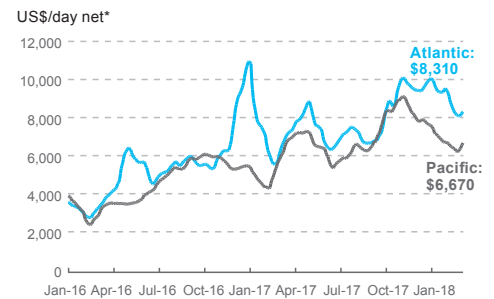
The freight market improvement despite increased net fleet growth indicates that the recovery was demand-driven.

Even so, continued scrapping of older and poorly designed ships and limited ordering are required for further improved market conditions to be sustained.

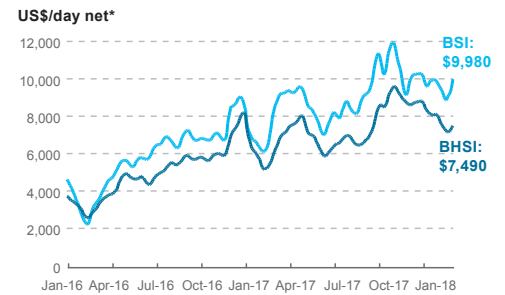
The global dry bulk fleet continues to operate at below full speed, so there remains potential for effective tonnage supply to increase without adding new ships to the fleet.

Reflecting recent evolutions in ship design and the composition of the global geared bulk carrier fleet, we now refer to the Handymax, Supramax and Ultramax segments more generally as "Supramax" (as is the common practice in commercial shipping parlance), and we now consider 42,000 dwt as the cut-off between Handysize and Supramax.

## Atlantic vs Pacific Spot Rates – Handysize



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



\* excludes 5% commission  
Source: Baltic Exchange, data as at 26 February 2018

**↑ 2.6%**

Global Handysize capacity

**↑ 3.0%**

Overall dry bulk capacity

## Key demand developments

Clarksons Research estimate dry bulk shipping tonne-mile demand in 2017 grew by 5.1% year on year (4.0% on a cargo volume basis), outweighing supply growth of 3.0% and significantly improving on demand growth of 2.3% in 2016 and 0.9% in 2015.

Stronger seaborne trade growth was apparent across most dry bulk cargo categories. In particular, stronger Chinese industrial activity drove robust growth in coal and iron ore imports and, more importantly for us, in the trade in minor bulks.

Global grain trade expanded more than expected primarily due to record South American grain export volumes. US coal exports improved strongly having bottomed out in 2016, and strong Atlantic exports overall drove Atlantic earnings to significantly outperform Pacific earnings during all four quarters of 2017. Longer trade distances also supported stronger global dry bulk seaborne tonne-mile demand.

Earnings in the Pacific peaked in October and declined in the fourth quarter, impacted by the onset of the northern hemisphere winter and Chinese anti-pollution measures taken to limit industrial output in advance of the National Congress.

## Ship values

Improved freight market conditions have supported sale and purchase activity and increased vessel values. Clarkson Research currently values a benchmark five year old Handysize bulk carrier at US\$14.0 million – up 4% since the start of 2017. Newbuilding prices have increased 14% since the start of 2017 to US\$22.3 million.

The gap between newbuilding and secondhand prices (and uncertainties over future design parameters) continues to discourage new ship ordering which will continue to benefit freight market fundamentals in the future.

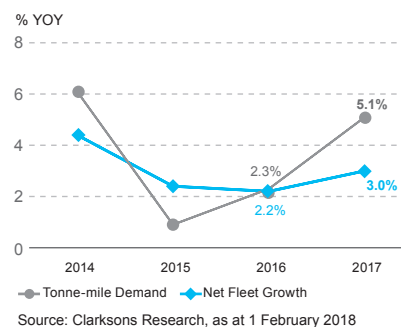
## Scheduled Orderbook

The overall dry bulk orderbook stands at 9.8% compared to 9.5% a year ago, and the combined Handysize and Supramax orderbook has reduced to 5.7%, its lowest since the 1990s. New ship ordering in 2017 increased from a very low base in 2016. Most new orders were for larger Capesize and Kamsarmax ships. New ordering for Handysize and Supramax vessels remains at historically low levels, which bodes well for a better market balance ahead. Total dry bulk scheduled deliveries for 2018 are 37% smaller than a year ago, and actual deliveries are expected to be around 26 million deadweight tonnes compared to 38 million in 2017.

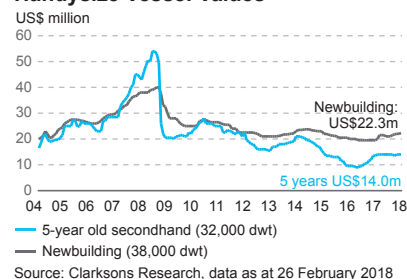
### 2017 Overall dry bulk demand

**↑ +5.1% (tonne-miles)**

### Dry Bulk Demand & Supply



### Handysize Vessel Values



## Our performance in 2017

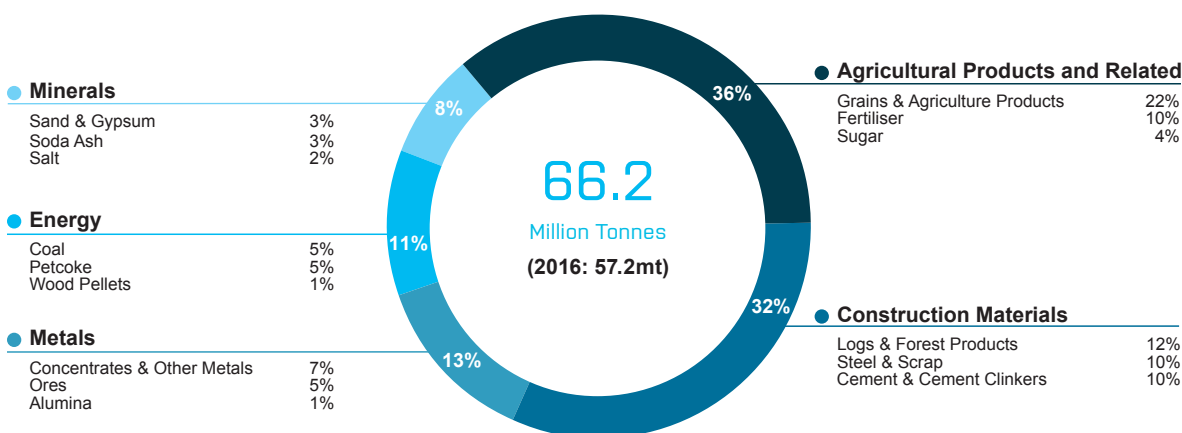
Our core dry bulk business generated a net profit of US\$2.6 million (2016: net loss US\$87.6 million) in a markedly better year for dry bulk shipping. In the improved but still challenging market conditions, we generated daily earnings that outperformed the BHSI and BSI indices and continued to maintain good control of our vessel operating costs.

### Dry bulk operating performance

US\$ Million	1H17	2H17	2017	2016	Change
Handysize Contribution	7.8	23.6	31.4	(37.1)	>+100%
Supramax Contribution	9.1	10.7	19.8	(3.3)	>+100%
Post-Panamax Contribution	2.7	2.8	5.5	5.5	–
Dry Bulk operating performance before overheads	19.6	37.1	56.7	(34.9)	>+100%
Overheads and tax	(25.9)	(28.2)	(54.1)	(52.7)	-3%
<b>Dry Bulk net profit/(loss)</b>	(6.3)	8.9	<b>2.6</b>	(87.6)	>+100%
Dry Bulk vessel net book value	1,756.6	1,791.5	<b>1,791.5</b>	1,650.8	+9%

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

### Our dry bulk cargo volumes in 2017

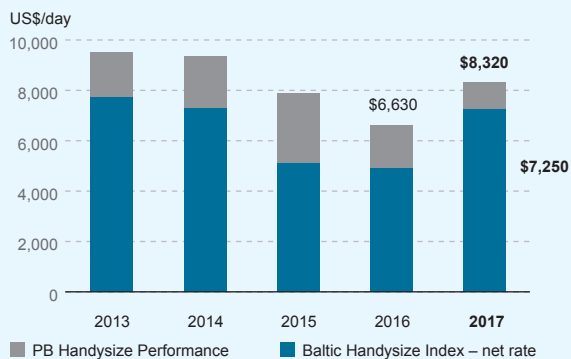


### Key performance indicators

#### Performance vs Market

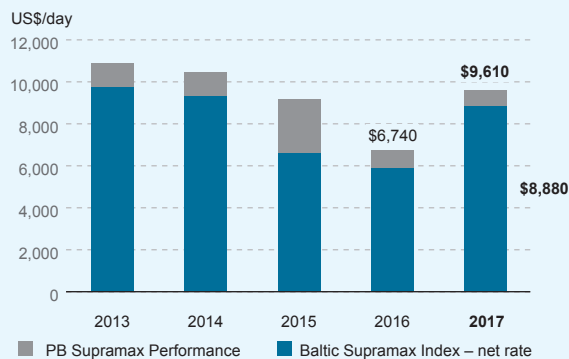
##### Handysize

**15%** outperformance compared to market



##### Supramax

**8%** outperformance compared to market



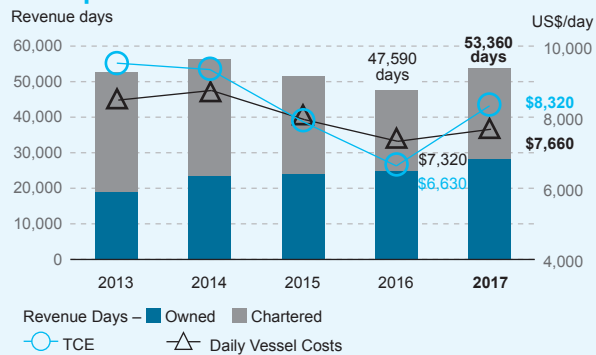
- Our outperformance in 2017 compared to spot market indices reflects the value of our fleet scale and cargo book, and our ability to optimise cargo combinations and match the right ships with the right cargoes to maximise our utilisation and vessel earnings.



## Profitability

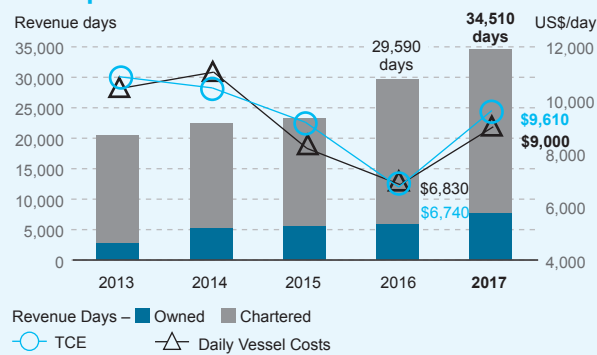
### Handysize

US\$31.4m contribution



### Supramax

US\$19.8m contribution



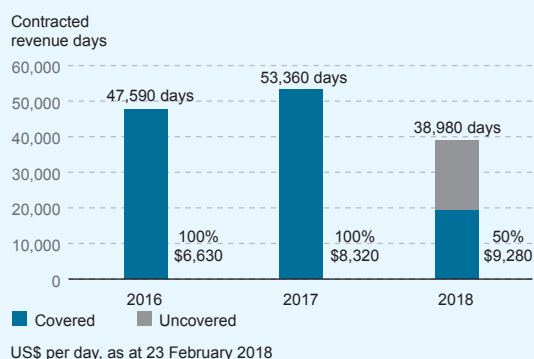
- We generated Handysize daily earnings of US\$8,320 with daily costs of US\$7,660 on 53,360 revenue days. We generated Supramax daily earnings of US\$9,610 with daily costs of US\$9,000 on 34,510 revenue days.
- Our Handysize and Supramax contributions returned to positive territory as we leveraged our business model to outperform in the improved but still challenging market.

As part of our business model, we charter in vessels for short periods for combination with cargoes with the aim of making a margin irrespective of whether the market is high or low. In low markets, these short-term positions generally lower our reported TCE earnings while in fact making a valuable positive contribution. If we exclude the vessel days attributable to this short-term operating activity and factor the positive margin into the TCE results of our core fleet, then our restated 2017 Handysize and Supramax daily earnings would improve to US\$8,410 on 44,750 days and US\$10,100 on 19,640 days respectively.

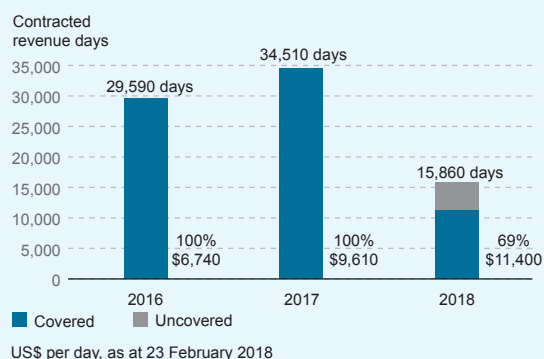
- We operated an average of 146 Handysize and 95 Supramax ships resulting in 12% and 17% increases in our Handysize and Supramax revenue days year on year.
- During the year, we redelivered expiring long-term chartered vessels to gradually lower our charter-in costs, relying instead on our growing fleet of owned ships supplemented by shorter-term and index-linked charters.

## Future Earnings and Cargo Cover

### Handysize



### Supramax



- We have covered 50% and 69% of our 38,980 Handysize and 15,860 Supramax revenue days currently contracted for 2018 at US\$9,280 and US\$11,400 per day net respectively.  
(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 contract cover provides a degree of earnings visibility.

## Daily vessel costs and commitments

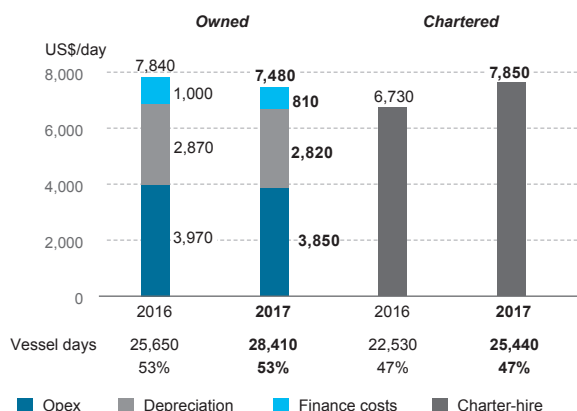
The cost of owning and operating dry bulk ships is the major component of our Group's total costs, and our ability to maintain good control of our "daily vessel costs" has a significant bearing on our operating margins and our financial performance overall. We provide below a short analysis of our daily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

### Vessels' daily P/L costs

#### Handysize

Blended US\$7,660 (2016: US\$7,320)

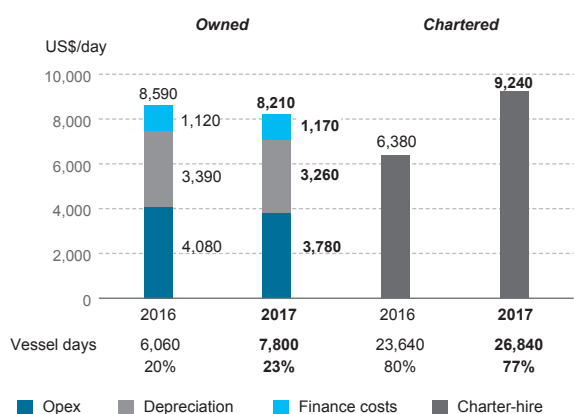
(excluding overheads)



#### Supramax

Blended US\$9,000 (2016: US\$6,830)

(excluding overheads)



**Operating expenses** – The daily operating expenses ("Opex") element of our vessel costs decreased 3% for Handysize and 7% for Supramax mainly due to scale benefits and procurement cost efficiencies.

Our fleet of owned dry bulk vessels experienced on average 1.0 day (2016: 2.6 days) of unplanned technical off-hire per vessel during the year.

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

**Finance costs** – Our owned vessels' daily P/L and cash finance costs were US\$810 and US\$750 respectively for Handysize, and US\$1,170 and US\$1,080 respectively for Supramax. The difference between the P/L and cash finance costs reflects the difference between the effective interest and coupon rate of our convertible bonds. Our Handysize daily finance costs reduced compared to 2016 while Supramax daily finance costs increased. This was due to the allocation of more convertible bonds interest to this vessel type as more Supramax owned vessels delivered.

**Charter-hire** – Our chartered vessels' daily P/L and cash charter-hire costs were US\$7,850 and US\$8,330 respectively for Handysize, and US\$9,240 and US\$9,310 respectively for Supramax. The difference between the P/L and cash charter-hire costs mainly reflects the write-back of onerous contract provisions previously made in relation to our 2017 charter commitments.

Chartered-in days represented 47% and 77% of our total Handysize and Supramax vessel days respectively. Their respective chartered-in days increased 13% to 25,440 days (2016: 22,530 days) and 14% to 26,840 days (2016: 23,640 days).

During the year, we secured 1,560 Handysize vessel days (2016: 3,050 days) and 960 Supramax vessel days (2016: 330 days) via variable-rate, inward charters with rates linked to the Baltic Handysize and Supramax indices. These index-linked vessels represented 6% and 4% of our chartered Handysize and Supramax vessel days respectively.

**Daily cash cost** – Excluding non-cash elements of the above and overheads, our average blended owned and chartered daily cash cost was US\$6,360 (2016: US\$6,090) for our Handysize fleet and US\$8,310 (2016: US\$6,390) for our Supramax fleet.

**General and administrative ("G&A") overheads** – Our dry bulk direct staff overheads and office costs, along with all overheads categorised as indirect overheads, amounted to US\$53.5 million (2016: US\$51.7 million). Spread across all our vessel days, these aggregate G&A overheads translated into a daily cost of US\$600 (2016: US\$660) per ship per day, comprising US\$840 per day for owned ships and US\$450 per day for chartered-in ships.

The Group's total G&A overheads (including those of our remaining towage activities) amounted to US\$54.4 million (2016: US\$52.9 million), with the year-on-year increase of US\$1.5 million attributable primarily to an increase in our staffing overheads as the owned fleet expanded.

## Vessel operating lease commitments

Vessel operating lease commitments stood at US\$396.5 million (2016: US\$549.4 million), comprising US\$269.2 million for Handysize, US\$105.4 million for Supramax and US\$21.9million for Post-Panamax.

Our Handysize operating lease committed days decreased 25% to 26,340 days (2016: 35,140 days) while our Supramax operating lease committed days decreased 36% to 8,590 days (2016: 13,370 days).

### Onerous contract provisions

The Group released onerous contract provisions of US\$20.3 million to the income statement following the utilisation of 2017 elements of the charters. At 31 December 2017, there remains a provision of US\$28.8 million for time charter contracts substantially expiring during the next three-year period as charter-hire costs are higher than the expected earnings during this period. The remaining provisions will be released back to the income statement in the periods in which the charter payments for these vessels are due (see adjacent table).

Year	US\$ Million		
	Handysize	Supramax	Total
2018	12.2	3.9	16.1
2019	7.1	2.7	9.8
2020	1.6	1.3	2.9
<b>Total</b>	<b>20.9</b>	<b>7.9</b>	<b>28.8</b>

### Charter hire reduction by issuing new shares

New shares were issued to 10 shipowners in 2016 in return for a reduction in charter-hire rates over a 24-month period on 10 of our long-term chartered ships ("Charter Hire Reduction"). The income statement still reflects the original contracted charter costs, but the cash payments in the 24-month period are reduced by the value of the shares issued. In 2017, the cash reduction amounted to US\$6.2 million (2016: US\$0.9 million), and for 2018, it is expected to be US\$4.7 million.

### Commitments excluding index-linked vessels

The following table shows the average daily charter rates both on a cash basis and P/L basis for our chartered-in Handysize and Supramax vessels during their remaining operating lease terms by year as at 31 December 2017. Compared to the contracted charter-hire costs, i) the cash basis cost reflects the reduced payments following the Charter Hire Reduction; and ii) the P/L basis cost reflects the reduction due to the write-back of onerous contract provisions.

Year	Handysize			Supramax		
	Vessel days	Average daily rate (US\$)		Vessel days	Average daily rate (US\$)	
		Cash basis	P/L basis		Cash basis	P/L basis
2018	8,260	9,860	8,730	4,140	11,530	11,020
2019	6,720	10,320	9,270	2,170	13,160	11,940
2020	4,020	10,470	10,070	1,560	13,030	12,150
2021	3,130	10,220	10,220	590	12,240	12,240
2022	2,180	9,960	9,960	130	12,500	12,500
2023+	2,030	11,160	11,160	–	–	–
<b>Total</b>	<b>26,340</b>			<b>8,590</b>		

Aggregate operating lease commitments

US\$269.2m

US\$105.4m

### Commitments including index-linked vessels

As at 31 December 2017, our fixed rate and variable rate index-linked lease commitments for 2017 (completed) and 2018 (contracted) can be analysed as follows:

	2017		1H2018		2H2018	
	Vessel Days	Average daily P/L rate (US\$)	Vessel Days	Average daily P/L rate (US\$)	Vessel Days	Average daily P/L rate (US\$)
<b>Handysize</b>						
Long-term (>1 year)	9,300	8,010	3,710	8,550	3,790	8,850
Short-term	14,580	7,770	760	9,020	–	–
Index-linked	1,560	7,690	380	Market rate	10	Market rate
<b>Total</b>	<b>25,440</b>	<b>7,850</b>	<b>4,850</b>		<b>3,800</b>	
<b>Supramax</b>						
Long-term (>1 year)	2,840	11,670	1,400	11,700	1,170	11,650
Short-term	23,040	8,940	1,570	9,940	–	–
Index-linked	960	9,180	410	Market rate	20	Market rate
<b>Total</b>	<b>26,840</b>	<b>9,240</b>	<b>3,380</b>		<b>1,190</b>	

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

Index-linked vessel operating lease commitments refer to leases with market-linked variable charter rates. The variable charter rates are linked to the Baltic Handysize and Supramax indices (as applicable) and adjusted to reflect differences in the vessels' characteristics compared to Baltic indices reference vessels.

## FUNDING

### Cash flow and cash

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

As part of the ordinary activities of the Group, the Treasury function actively manages the cash and borrowings of the Group to ensure sufficient funds are available to meet 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 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 appropriate over all stages of the shipping cycle.

### Overview of 2017 and current position

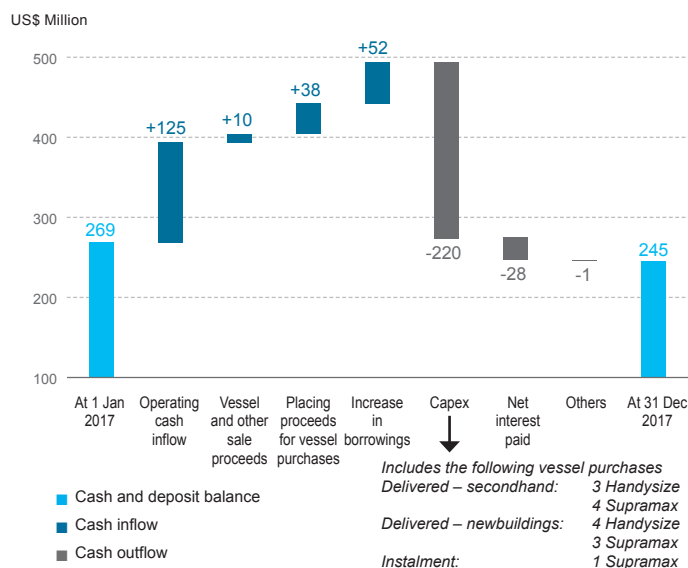
During 2017:

- Our operating cash inflow further improved to US\$125 million, as compared with US\$48 million in the first half 2017 and US\$50 million in full year 2016 on the back of an improving dry bulk market conditions.
- Borrowings increased by US\$52 million, after:
  - We drew down US\$158 million, comprising US\$140 million under our Japanese export credit facilities in respect of seven delivered newbuildings to fund the capital commitments of US\$119 million, and US\$18 million of other borrowings on two existing vessels; and
  - We repaid US\$106 million of secured borrowings, net of the voluntary prepayment and drawdown of our revolving facilities during the year.
- In August, we committed to the purchase of one secondhand Handysize, three secondhand Supramax and one resale Supramax newbuilding for a total consideration of US\$105 million, which was funded by way of i) the issue of new shares to the ship sellers equivalent to US\$46 million; ii) the placement of new shares to institutional investors, raising net cash proceeds of US\$38 million; and iii) cash payment of US\$21 million.

As at 31 December 2017:

- The Group's cash and deposits were US\$245 million reflecting a 35% net gearing ratio.
- Our unmortgaged vessels comprise ten dry bulk vessels (including the resale Supramax newbuilding which delivered to us in January 2018) with an aggregate market value of approximately US\$173 million.
- Our committed banking facilities were fully drawn.

### Sources and Uses of Group Cash in 2017



### Cash and deposits

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

US\$ Million	2017	2016	Change
<b>Cash and deposits</b>	<b>244.7</b>	269.2	-9%
Current portion of long-term borrowings	(104.1)	(95.7)	
Long-term borrowings	(776.9)	(743.5)	
<b>Total borrowings</b>	<b>(881.0)</b>	(839.2)	-5%
Net borrowings	(636.3)	(570.0)	-12%
Net borrowings to shareholders' equity	55%	55%	
Net borrowings to net book value of property, plant and equipment	35%	34%	
Net working capital	136.8	160.6	-15%

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

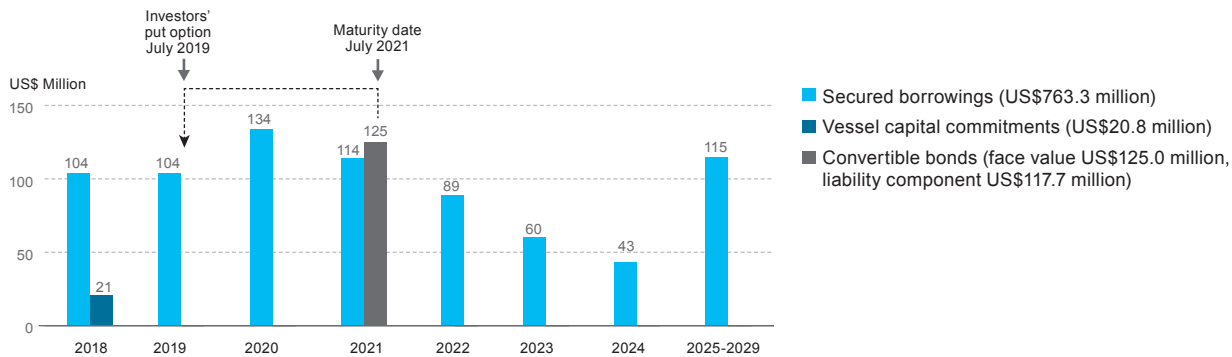
Treasury enhances Group income by investing in a mix of financial products, based on the perceived balance of risk, return and liquidity. Cash, deposits and investment products are placed with a range of leading banks, mainly in Hong Kong.

The Group's cash and deposits at 31 December 2017 comprised US\$236.9 million in United States Dollars and US\$7.8 million in other currencies. They are primarily placed in liquid deposits of three months or less and saving accounts. This maintains liquidity to meet the Group's working capital needs.

During the year, Treasury achieved a 1.6% return on the Group's cash.

## 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. The aggregate borrowings of the Group at 31 December 2017, which comprised secured borrowings and the liability component of convertible bonds, amounted to US\$881.0 million (2016: US\$839.2 million) and are mainly denominated in United States Dollars.

#### Secured borrowings – US\$763.3 million (2016: US\$723.8 million)

Secured borrowings are in the functional currency of the business segment to which they relate. The overall increase in secured borrowings is mainly due to the drawdowns under our Japanese export credit facilities and other borrowings, partially offset by scheduled loan amortisation.

During the year, we drew down all our remaining committed loan facilities, which comprise our Japanese export credit facilities of US\$139.7 million secured on seven newbuildings which were delivered in the first half of 2017 and other borrowings of US\$18.2 million in respect of two existing vessels.

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

As at 31 December 2017:

- The Group's secured borrowings were secured by 96 vessels with a total net book value of US\$1,625.8 million and an assignment of earnings and insurances in respect of these vessels.
- The Group was in compliance with all its loans-to-asset value requirements.

P/L impact:

The increase in interest (after capitalisation) to US\$29.1 million (2016: US\$22.1 million) was mainly due to an increase in average secured borrowings to US\$794.9 million (2016: US\$564.2 million).

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

#### Convertible bonds – liability component is US\$117.7 million (2016: US\$115.4 million)

As at 31 December 2017 and 31 December 2016, there remained the 3.25% p.a. coupon July 2021 convertible bonds with an outstanding principal of US\$125.0 million and the prevailing conversion price of HK\$3.07.

P/L impact:

The US\$6.4 million (2016: US\$12.4 million) interest expense of the convertible bonds is calculated at an effective interest rate of 5.7% (2016: 5.2%).

## Finance costs

### Finance costs by nature

US\$ Million	Average interest rate		Balance at	Finance costs		(Increase)/ decrease
	P/L	Cash	31 December 2017	2017	2016	
Secured borrowings (including realised interest rate swap costs)	3.6%	3.6%	763.3	<b>29.1</b>	22.1	(32%)
Convertible bonds (Note)	5.7%	3.3%	117.7	<b>6.4</b>	12.4	48%
	3.9%	3.6%	881.0	<b>35.5</b>	34.5	(3%)
Unrealised interest rate swap income				–	(1.6)	
Other finance charges				<b>0.5</b>	1.0	
Total finance costs				<b>36.0</b>	33.9	(6%)
Interest coverage (calculated as EBITDA divided by total gross finance costs)				<b>3.7x</b>	0.7x	

Note: The convertible bonds have a P/L cost of US\$6.4 million and a cash cost of US\$4.1 million.

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

The Group aims to achieve a balance between floating and fixed interest rates on its long-term borrowings. This is adjusted from time to time, depending on the interest rate cycle, using interest rate swap contracts where appropriate. During the year, all our interest rate swap contracts qualified for hedge accounting as cash flow hedges and US\$0.9 million of interest rate swap contract costs were realised. As at 31 December 2017, 65% (2016: 65%) of the Group's long-term borrowings were on fixed interest rates. As at 31 December 2018 and 2019, we expect about 65% of the Group's existing long-term borrowings will be on fixed interest rates.

### Delivered vessels

As at 31 December 2017, the Group operated owned dry bulk vessels with a net book value of US\$1,792 million as follows:

	Number	Average size (dwt tonnes)	Average age (years)	Average net book value (US\$ Million)	Total net book value (US\$ Million)
Handysize	80	32,600	9.3	15.3	1,222
Supramax	24	56,200	6.1	21.9	527
Post-Panamax	1	115,500	6.0	43.3	43

Latest estimated fair market values published by Clarksons Research are US\$14.0 million and US\$17.5 million for 5-year old 32,000 dwt Handysize and 56,000 dwt Supramax vessels respectively.

### Vessel capital commitments

As at 31 December 2017, the Group had commitments of US\$20.8 million for one Supramax vessel, which delivered to the Group in January 2018.

As at 31 December 2017, the Group had options to purchase 10 Handysize, 3 Supramax and 1 Post-Panamax vessels at predetermined times and prices during the period of their leases. These options are not expected to be exercised under current market conditions.



# FINANCIAL STATEMENTS

## Group performance review

US\$ Million	Note	2017	2016	Change
Revenue		<b>1,488.0</b>	1,087.4	+37%
Bunker, port disbursement & other voyage costs		<b>(701.5)</b>	(555.4)	-26%
Time-charter equivalent ("TCE") earnings	1	<b>786.5</b>	532.0	+48%
Owned vessel costs				
Operating expenses	2	<b>(139.3)</b>	(130.9)	-6%
Depreciation	3	<b>(107.6)</b>	(97.1)	-11%
Net finance costs	4	<b>(32.3)</b>	(32.8)	+2%
Charter costs	5	<b>(451.0)</b>	(305.5)	-48%
Operating performance before overheads		<b>56.3</b>	(34.3)	>+100%
Total G&A overheads	6	<b>(54.4)</b>	(52.9)	-3%
Taxation		<b>0.4</b>	(1.0)	>+100%
Others		<b>(0.1)</b>	0.5	>-100%
Underlying profit/(loss)		<b>2.2</b>	(87.7)	>+100%
Unrealised derivative income	7	<b>5.4</b>	23.6	
Office relocation costs	8	<b>(1.4)</b>	–	
Vessel impairments	9	<b>(0.8)</b>	(15.2)	
Sales of towage vessels	9	<b>(0.5)</b>	(4.9)	
Towage exchange loss	9	<b>(1.3)</b>	(2.8)	
Other impairments and disposals		–	(1.2)	
Sales of properties		–	1.7	
Profit/(loss) attributable to shareholder		<b>3.6</b>	(86.5)	>+100%
EBITDA	10	<b>133.8</b>	22.8	>+100%
Net profit margin		<b>1%</b>	(8%)	+9%
Return on average equity employed		<b>1%</b>	(9%)	+10%

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

### Notes

- Total time-charter equivalent ("TCE") earnings increased by 48%, mainly due to the significantly improved market conditions in 2017 from a historically low level in 2016.
- Total operating expenses of our owned vessels increased by 6% as our owned fleet expanded, but our daily vessel costs reduced primarily through scale benefits and continued cost control.
- Depreciation of our owned vessels increased by 11% as our owned fleet expanded, but with lower daily cost principally due to the addition of lower cost acquisitions.
- Net finance costs were substantially unchanged.
- Charter costs include the write-back of the onerous contract provisions. The costs increased by 48% owing to the increased chartered days and higher charter rates as a result of improving market conditions.
- The increase in total G&A overheads was attributable primarily to an increase in staff-related costs as our owned fleet expanded.
- An unrealised derivative income from bunker swap contracts was as a result of increase in oil and bunker prices.
- The one-off office relocation costs related to the relocation of the Hong Kong headquarters to a better and more cost-efficient office.
- The sale of remaining towage assets resulted in a capital loss and the release of their related non-cash exchange loss from reserves to the income statement. This concluded our complete exit from the towage business.
- EBITDA substantially increased mainly due to the significantly improved market conditions in 2017. Our cash and deposits at the year end stood at US\$244.7 million (2016: US\$269.2 million) with net gearing of 35% (2016: 34%).

US\$ Million	2017				2016			
	Dry Bulk	Towage	Others	Total	Dry Bulk	Towage	Others	Total
Operating performance before overheads	<b>56.7</b>	<b>(0.6)</b>	<b>0.2</b>	<b>56.3</b>	(34.9)	1.1	(0.5)	(34.3)
Total G&A overheads	<b>(53.5)</b>	<b>(0.9)</b>	–	<b>(54.4)</b>	(51.7)	(1.2)	–	(52.9)
Taxation	<b>(0.6)</b>	<b>1.0</b>	–	<b>0.4</b>	(1.0)	–	–	(1.0)
Others	–	–	<b>(0.1)</b>	<b>(0.1)</b>	–	–	0.5	0.5
Underlying profit/(loss)	<b>2.6</b>	<b>(0.5)</b>	<b>0.1</b>	<b>2.2</b>	(87.6)	(0.1)	–	(87.7)
Other exceptions	–	–	<b>1.4</b>	<b>1.4</b>	–	–	1.2	1.2
Profit/(loss) attributable to shareholder	<b>2.6</b>	<b>(0.5)</b>	<b>1.5</b>	<b>3.6</b>	(87.6)	(0.1)	1.2	(86.5)

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

## Consolidated income statement

	Note	For the year ended 31 December	
		2017 US\$'000	2016 US\$'000
Revenue		1,488,019	1,087,371
Cost of services		(1,463,311)	(1,141,696)
Gross profit/(loss)		24,708	(54,325)
Indirect general and administrative overheads		(5,310)	(5,749)
Other income and gains		20,431	29,971
Other expenses		(4,226)	(24,284)
Finance income		3,651	2,750
Finance costs		(35,998)	(33,925)
Profit/(loss) before taxation	4	3,256	(85,562)
Tax credits/(charges)	5	354	(985)
Profit/(loss) attributable to shareholders		3,610	(86,547)
Basic and diluted earnings per share for profit/(loss) attributable to shareholders (in US cents)	7	0.09	(2.63)

## Consolidated statement of comprehensive income

	For the year ended 31 December	
	2017 US\$'000	2016 US\$'000
Profit/(loss) attributable to shareholders	3,610	(86,547)
Other comprehensive income – items that may be reclassified to income statement:		
Cash flow hedges:		
– transferred to income statement	(10,356)	3,549
– fair value gains/(losses)	12,656	(699)
Release of exchange losses from reserves to income statement for disposal of towage assets	1,306	2,815
Currency translation differences	771	(16)
Fair value losses on available-for-sale financial assets	(306)	–
Total comprehensive income attributable to shareholders	7,681	(80,898)

## Consolidated balance sheet

	Note	As at 31 December	
		2017 US\$'000	2016 US\$'000
<b>Assets</b>			
Non-current assets			
Property, plant and equipment		1,797,587	1,653,433
Goodwill		25,256	25,256
Available-for-sale financial assets		569	875
Derivative assets		1,233	969
Trade and other receivables	8	5,254	5,405
Restricted bank deposits		58	58
		<b>1,829,957</b>	<b>1,685,996</b>
Current assets			
Inventories		71,774	62,492
Derivative assets		4,834	2,831
Assets held for sale		–	5,820
Trade and other receivables	8	80,275	80,940
Cash and deposits		244,636	269,146
Tax receivable		116	–
		<b>401,635</b>	<b>421,229</b>
<b>Total assets</b>		<b>2,231,592</b>	<b>2,107,225</b>
<b>Equity</b>			
Capital and reserves attributable to shareholders			
Share capital		43,554	40,046
Retained profits		154,387	150,783
Other reserves		963,194	849,942
<b>Total equity</b>		<b>1,161,135</b>	<b>1,040,771</b>
<b>Liabilities</b>			
Non-current liabilities			
Derivative liabilities		5,790	24,860
Long-term borrowings		776,876	743,507
Provision for onerous contracts		12,731	31,564
Trade and other payables	9	10,203	5,856
		<b>805,600</b>	<b>805,787</b>
Current liabilities			
Derivative liabilities		772	2,899
Trade and other payables	9	143,878	140,625
Current portion of long-term borrowings		104,092	95,735
Taxation payable		–	1,054
Provision for onerous contracts		16,115	20,354
		<b>264,857</b>	<b>260,667</b>
<b>Total liabilities</b>		<b>1,070,457</b>	<b>1,066,454</b>

Notes:

## 1. General information and basis of preparation

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

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

The financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants. The financial statements have been prepared under the historical cost 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.

## 2. Adoption of new/revised HKFRS

Certain amendments to standard are mandatory for the accounting period beginning 1 January 2017. However, the adoption of these amendments to standard does not result in any substantial change to the Group's accounting policies.

## 3. Revenue and segment information

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

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

## 4. Profit/(loss) before taxation

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

US\$'000	2017	2016
Bunkers consumed	338,507	220,546
Depreciation		
– owned vessels	107,603	97,109
– other owned property, plant and equipment	1,684	1,658
– investment properties	–	34
Interest on borrowings		
– secured bank loans	26,375	19,154
– unsecured convertible bonds	6,400	12,353
– other secured borrowings	2,149	510
Net losses on interest rate swap contracts	919	2,823
Utilisation of provision for onerous contracts	(20,273)	(27,664)
Net gains on bunker swap contracts	(5,815)	(9,895)
Net losses on forward freight agreements	50	–
Provision for impairment losses		
– trade receivables	2,022	424
– assets held for sale	830	–
– other receivables	112	–
– vessels	–	15,245
– available-for-sale financial assets	–	1,260
Losses on disposal of vessels and other property, plant and equipment	539	3,776
Gains on disposal of investment properties	–	(469)

## 5. Taxation

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

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

US\$'000	2017	2016
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2016: 16.5%)	323	715
Overseas tax, provided at the rates of taxation prevailing in the countries	348	319
Adjustments in respect of prior year	(1,025)	(49)
Tax (credits)/charges	(354)	985

## 6. Dividends

No final dividends were declared in respect of the years ended 31 December 2017 and 2016.

## 7. Earnings per share

### (a) Basic earnings per share

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

The weighted average number of shares used in the calculation of 2016 earnings per share was adjusted for the bonus element of the rights issue completed in June 2016.

		2017	2016
Profit/(loss) attributable to shareholders	(US\$'000)	3,610	(86,547)
Weighted average number of ordinary shares in issue	('000)	4,079,791	3,285,006
Basic earnings per share	(US cents)	0.09	(2.63)
Equivalent to	(HK cents)	0.69	(20.44)

### (b) Diluted earnings per share

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

		2017	2016
Profit/(loss) attributable to shareholders	(US\$'000)	3,610	(86,547)
Weighted average number of ordinary shares in issue	('000)	4,079,791	3,285,006
Adjustment for calculation of diluted EPS relating to unvested restricted shares	('000)	80,542	–
Weighted average number of ordinary share for diluted EPS	('000)	4,160,333	3,285,006
Diluted earnings per share	(US cents)	0.09	(2.63)
Equivalent to	(HK cents)	0.68	(20.44)

Diluted earnings per share for the year ended 31 December 2016 is the same as the basic earnings per share since the potential ordinary shares from convertible bonds and unvested restricted shares have anti-dilutive effect.

## 8. Trade and other receivables

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

US\$'000	2017	2016
< 30 days	34,188	24,872
31-60 days	3,749	800
61-90 days	742	345
> 90 days	5,991	5,258
	44,670	31,275

Trade receivables consist principally of voyage-related trade receivables. It is industry practice that 95% to 100% of freight is paid upon completion of loading, with any balance paid after completion of discharge and the finalisation of port disbursements, demurrage claims or other voyage-related charges. The Group will not normally grant any credit terms to its customers.

## 9. Trade and other payables

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

US\$'000	2017	2016
< 30 days	50,729	45,327
31-60 days	290	670
61-90 days	221	402
> 90 days	5,314	5,170
	56,554	51,569

### Purchase, sale or redemption of securities

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

### Compliance with the code of conduct regarding directors' securities transactions

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

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

### Compliance with the corporate governance code

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

### Review by audit committee and auditors

The Audit Committee of the Company has reviewed this annual results announcement and the Annual Report of the Company for the year ended 31 December 2017.

The figures in respect of the Group's consolidated balance sheet, consolidated income statement, consolidated statement of comprehensive income and the related notes thereto for the year ended 31 December 2017 as set out in the preliminary announcement have been agreed by the Group's auditor, PricewaterhouseCoopers, to the amounts set out in the Group's draft consolidated financial statements for the year. The work performed by PricewaterhouseCoopers in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by PricewaterhouseCoopers on the preliminary announcement.

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

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

The Company's 2017 Annual Report will be available on the Company's website at [www.pacificbasin.com](http://www.pacificbasin.com) no later than the date on which it is sent to those shareholders who have elected to receive a printed copy on or around 13 March 2018.

### Directors

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

Executive Directors:

David Muir Turnbull and Mats Henrik Berglund.

Independent Non-executive Directors:

Patrick Blackwell Paul, Robert Charles Nicholson, Alasdair George Morrison, Daniel Rochfort Bradshaw, Irene Waage Basili and Stanley Hutter Ryan.

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