Financial Statements

GROUP PERFORMANCE REVIEW

US$ Million	2016	2015	Change
Revenue	**1,087.4**	1,260.3	-14%
Bunker & port disbursement	**(555.1)**	(611.5)	+9%
Time charter equivalent earnings ("TCE")	**532.3**	648.8	-18%
Other direct costs	**(586.6)**	(652.9)	+10%
Gross loss	**(54.3)**	(4.1)	>-100%
Dry Bulk	**(87.6)**	(34.7)	>-100%
Towage	**(0.1)**	6.2	>-100%
Others	**0.0**	0.7	>-100%
Underlying loss	**(87.7)**	(27.8)	>-100%
Unrealised derivative income	**23.6**	8.8	
Sale of properties	**1.7**	–	
Vessel impairments	**(15.2)**	–	
Sale of towage assets	**(4.9)**	2.8	
Towage exchange charge	**(2.8)**	(1.5)	
Other impairments	**(1.2)**	(0.8)	
Loss attributable to shareholders	**(86.5)**	(18.5)	>-100%
EBITDA	**22.8**	93.2	-76%
Net profit margin	**(8%)**	(1%)	-7%
Return on average equity employed	**(9%)**	(2%)	-7%

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

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

The main drivers of our results in 2016 were as follows:

- Revenue decreased by 14% and cost of services reduced by 9%, mainly due to:
  – one of the weakest ever years for the dry bulk market; and
  – replacing expiring long-term chartered-in vessels with more lower cost short-term chartered-in vessels.
- Loss attributable to shareholders was mainly affected by:
  – an unrealised derivative accounting gain of US$23.6 million mainly from accounting reversal of completed prior year bunker swap contracts;
  – gains of US$1.7 million from disposal of all the China properties; offset by
  – non-cash impairments of US$15.2 million for the remaining towage vessels and one Supramax vessel that was sold after the year end; and
  – losses of US$4.9 million from disposals of towage assets and their related non-cash exchange loss of US$2.8 million. The Group maintains a foreign exchange reserve for the translation of net asset value of the Australian Dollar-denominated subsidiaries to US Dollars. At 31 December 2016, the foreign exchange reserve balance amounted to a charge of US$1.4 million. The release of this reserve to the consolidated income statement will be triggered by the sales of the remaining assets and closing down of the subsidiaries denominated in Australian Dollars.
- EBITDA was US$22.8 million (2015: US$93.2 million) contributing to a positive operating cash flow. Our cash and deposits at the year end stood at US$269.2 million (2015: US$358.4 million) with net gearing of 34% (2015: 35%).

Consolidated Balance Sheet

	Note	As at 31 December 2016 US$'000	2015 US$'000
ASSETS			
Non-current assets			
Property, plant and equipment	6	**1,653,433**	1,611,000
Investment properties	7	**–**	2,400
Land use rights	8	**–**	2,686
Goodwill	9	**25,256**	25,256
Available-for-sale financial assets	11	**875**	2,135
Derivative assets	12	**969**	–
Trade and other receivables	13	**5,405**	5,559
Restricted bank deposits	14	**58**	58
		1,685,996	1,649,094
Current assets			
Inventories	15	**62,492**	50,785
Derivative assets	12	**2,831**	–
Assets held for sale	16	**5,820**	–
Trade and other receivables	13	**80,940**	87,486
Cash and deposits	14	**269,146**	358,370
		421,229	496,641
Total assets		**2,107,225**	2,145,735
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	20	**40,046**	194,480
Retained profits	21	**150,783**	213,233
Other reserves	21	**849,942**	563,225
Total equity		**1,040,771**	970,938
LIABILITIES			
Non-current liabilities			
Derivative liabilities	12	**24,860**	33,797
Long-term borrowings	19	**743,507**	633,226
Provision for onerous contracts	18	**31,564**	51,918
Trade and other payables	17	**5,856**	–
		805,787	718,941
Current liabilities			
Derivative liabilities	12	**2,899**	16,655
Trade and other payables	17	**140,625**	117,364
Current portion of long-term borrowings	19	**95,735**	292,739
Taxation payable		**1,054**	1,434
Provision for onerous contracts	18	**20,354**	27,664
		260,667	455,856
Total liabilities		**1,066,454**	1,174,797

Approved by the Board of Directors on 28 February 2017

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Consolidated Income Statement

	Note	For the year ended 31 December **2016** **US$'000**	 2015 US$'000
Revenue	4	**1,087,371**	1,260,291
Cost of services (note)		**(1,141,696)**	(1,264,402)
Gross loss		**(54,325)**	(4,111)
General and administrative expenses (note)		**(5,749)**	(5,954)
Vessel impairments (note)		**(15,245)**	–
Other income and gains	22	**29,971**	31,576
Other expenses (note)		**(9,039)**	(3,724)
Finance income	23	**2,750**	4,469
Finance costs	23	**(33,925)**	(39,795)
Share of profits of investments accounted for using the equity method		**–**	178
Loss before taxation		**(85,562)**	(17,361)
Taxation	24	**(985)**	(1,179)
Loss attributable to shareholders		**(86,547)**	(18,540)
Basic and diluted earnings per share for loss attributable to shareholders (comparative restated) (in US cents)	26	**(2.63)**	(0.70)

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

Consolidated Statement of Comprehensive Income

	For the year ended 31 December	
	2016 US$'000	2015 US$'000
Loss attributable to shareholders	**(86,547)**	(18,540)
Other comprehensive income – items that may be reclassified to income statement:		
Cash flow hedges:		
– transferred to finance costs in income statement	**3,549**	6,179
– fair value losses	**(699)**	(18,885)
Release of exchange losses/(gains) from reserves to income statement for foreign operations upon:		
– disposal of towage assets	**2,815**	–
– repayment of shareholder loans by subsidiaries	**–**	(669)
– disposal of a joint venture	**–**	(355)
Fair value losses on available-for-sale financial assets	**–**	(1,102)
Currency translation differences	**(16)**	(2,497)
Total comprehensive income attributable to shareholders	**(80,898)**	(35,869)

Consolidated Statement of Changes in Equity

		For the year ended 31 December	
	Note	**2016 US$'000**	2015 US$'000
Balance at 1 January		**970,938**	1,001,746
Rights issue, net of issuing expenses	20,21	**142,772**	–
Total comprehensive income attributable to shareholders		**(80,898)**	(35,869)
Shares issued to compensate the shipowners for Charter Hire Reduction	20,21	**12,536**	–
Derecognition of equity component upon exercise of CB redemption/buyback		**(7,966)**	(562)
Share-based compensation		**4,207**	4,749
Shares purchased by trustee of the SAS	20	**(1,809)**	(530)
Shares granted to employees in the form of restricted shares awards		**991**	–
Equity component of convertible bonds issued		**–**	13,772
Dividends paid	25	**–**	(12,368)
Balance at 31 December		**1,040,771**	970,938

Consolidated Cash Flow Statement

	Note	2016 US$'000	2015 US$'000
		For the year ended 31 December	
Operating activities			
Cash generated from operations	27	**51,031**	99,729
Hong Kong profits tax paid		**(694)**	(647)
Overseas taxation paid		**(816)**	(467)
Net cash generated from operating activities		**49,521**	98,615
Investing activities			
Purchase of property, plant and equipment		**(181,340)**	(146,408)
Disposal of property, plant and equipment		**16,066**	2,970
Disposal of investment properties		**5,065**	–
Disposal of joint ventures		**650**	14,400
Disposal of harbour towage business and other vessels		**–**	117,491
Disposal of assets held for sale		**–**	5,647
Decrease/(increase) in term deposits		**58,166**	(53,633)
Decrease in restricted bank deposits		**–**	1,636
Interest received		**2,750**	2,925
Loan repayment received from a joint venture		**–**	120
Net cash used in investing activities		**(98,643)**	(54,852)
Financing activities			
Drawdown of bank loans and other borrowings		**344,851**	190,682
Repayment of bank loans and other borrowings		**(209,953)**	(265,101)
Repayment of finance lease liabilities – capital element		**–**	(5,003)
Payment for redemption/buyback of convertible bonds	19(c)	**(229,390)**	(103,257)
Proceeds from issuance of convertible bond, net of issuing expenses		**–**	123,725
Proceeds from rights issue, net of issuing expenses	20,21	**142,772**	–
Payment for shares purchased by trustee of the SAS	20	**(1,809)**	(530)
Shares granted to employees in the form of restricted shares awards		**991**	–
Interest and other finance charges paid		**(29,350)**	(28,568)
Dividends paid to shareholders of the Company		**–**	(12,368)
Net cash generated from/(used in) financing activities		**18,112**	(100,420)
Net decrease in cash and cash equivalents		**(31,010)**	(56,657)
Exchange losses on cash and cash equivalents		**(48)**	(337)
Cash and cash equivalents at 1 January		**199,737**	256,731
Cash and cash equivalents at 31 December	14	**168,679**	199,737
Term deposits at 1 January	14	**158,633**	105,000
(Decrease)/increase in term deposit		**(58,166)**	53,633
Cash and deposits at 31 December	14	**269,146**	358,370

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

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

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

These financial statements have been approved for issue by the Board of Directors on 28 February 2017.

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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 Risk – Page 18
- Credit & Counterparty Risk – Page 19
- Liquidity Risk – Page 22
- Capital Management Risk – Page 22

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 2016 and the financial position of the Group on that date, together with comparative information.

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 ("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 2016 and are relevant to the Group's operation.

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
Annual improvement 2014	

The adoption of these amendments to standard does not result in any substantial change to the Group's accounting policies.

Certain new and amended standards, and improvements to HKFRS ("New Standards") are mandatory for accounting period beginning after 1 January 2017. The Group was not required to adopt these New Standards in the financial statements for the year ended 31 December 2016. The New Standards that are relevant to the Group's operation are as follows:

HKAS 7 (Amendments)	Statement of cash flows
HKFRS 2 (Amendments)	Classification and measurement of share-based payment transactions
HKFRS 9	Financial instruments
HKFRS 15	Revenue from contracts with customers
HKFRS 16	Leases

The Group has commenced an assessment of the impact of these New Standards. A key change expected from HKFRS 16 is that charter-in operating leases of longer than 12 months will be accounted for on balance sheet as right-of-use assets and lease liabilities. Operating lease expenses in the income statement will be replaced by a combination of depreciation and interest expense. Interest expenses will be calculated by reference to the interest rates implicit in the leases and will produce a constant periodic rate of interest on the remaining balance of the lease liabilities. The interest expenses will reduce over time in line with the principal reduction. Charter-in contracts of less than 12 months, representing over 50% of our existing charter-in fleet, are not affected.

For New Standards other than HKFRS 16, the Group has also commenced an assessment of the impact of these New Standards but is not yet in a position to state whether they will have a significant impact on its operating results and financial position.

2.3 Accounting policies navigator

Accounting policies	Location
Assets held for sale	Note 16
Available-for-sale financial assets	Note 11
Borrowings	Note 19
Cash and cash equivalents	Note 14
Consolidation	
Joint operation	Note 10
Subsidiaries	Note 2.4
Contingent liabilities and contingent assets	Note 32
Convertible bonds (“CB”)	Note 19(c)
Current and deferred income tax	Note 24
Derivative financial instruments and hedging activities: i) cash flow hedges, and ii) derivatives not qualifying for hedge accounting	Note 12
Dividends	Note 25
Employee benefits	Remuneration Report (p.40)
Financial assets at fair value through profit or loss	Note 12
Financial guarantee contracts	Note 31
Foreign currency translation	Note 2.5
Goodwill	Note 9
Impairment of i) investments in subsidiaries and non-financial assets, ii) available-for-sale financial assets and iii) trade and other receivables	Note 5
Inventories	Note 15
Investment properties	Note 7
Land use rights	Note 8
Offsetting financial instruments	Note 12
Operating leases where the Group is the lessor or lessee	Note 28(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 2.6
Provision for onerous contracts	Note 18
Revenue recognition for freight and charter-hire, and other revenue	Note 4
Segment reporting	Note 4
Share capital	Note 20
Trade and other receivables	Note 13
Trade payables	Note 17

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 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.

2.5 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").

(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 included in cost of services" 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.

2.6 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 18
(f)	Income taxes	Note 24
(g)	Classification of leases	Note 28(b)

4 REVENUE AND SEGMENT INFORMATION

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

The Group manages its businesses by divisions. Reports are presented to the Board for the purpose of making strategic decisions, allocation of resources and assessing performance.

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 internally reviews and reports on the performance of the Group's material operations as a single segment. This is also the basis on which management reports to the Board.

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 Supramax vessels.

Revenues from the pools of Handysize and Supramax 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.

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

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Notes to the Financial Statements continued

5 EXPENSES BY NATURE

US$'000	2016	2015
Operating lease expenses		
– vessels	333,130	374,774
– land and buildings	4,263	4,096
Port disbursements and other voyage costs	322,358	306,113
Bunkers consumed	220,546	278,279
Depreciation		
– owned vessels	97,109	91,931
– other owned property, plant and equipment	1,658	1,624
– investment properties	34	66
– leased vessels	–	6,391
Amortisation of land use rights	38	73
Employee benefit expenses including Directors' emoluments (see Remuneration Report p.39)	41,047	42,564
Provision for impairment losses		
– vessels (Note 6(d))	15,245	–
– available-for-sale financial assets	1,260	889
– trade receivables (Note 13)	424	1,934
Net (gains)/losses on bunker swap contracts (Note 12(d))	(9,895)	18,879
Lubricating oil consumed	8,924	7,901
Losses on disposal of towage assets	4,964	679
Net foreign exchange losses	3,182	2,305
Auditors' remuneration		
– audit	901	1,229
– non-audit	81	303
Losses on forward freight agreements	–	538
Net gains on forward foreign exchange contracts (Note 12(d))	–	(87)
Vessel and other expenses	126,460	133,599
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 impairments" and (iv) "other expenses"	1,171,729	1,274,080

Total administrative expenses

US$ Million	2016	2015
Direct overheads included in cost of services	47.2	50.6
General and administrative expenses	5.7	6.0
Total administrative expenses	52.9	56.6

The year-on-year saving of US$3.7 million in total administrative expenses reflects a range of cost savings initiatives undertaken during the year.

Operating lease expenses

The total vessel operating lease expenses of $333.1 million (2015: US$374.8 million) above include contingent lease payments amounting to US$17.4 million (2015: US$50.2 million). These relate to dry bulk vessels chartered-in on an index-linked basis.

Accounting policy – Impairment

(i) 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 (a) an asset's fair value less costs to sell and (b) 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.

(ii) 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.

(iii) 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 "cost of services". When a trade receivable is uncollectable, it is written off against the provision for impairment.

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT

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 2016	2,000,221	46,921	1,096	4,309	9,327	32	2,061,906
Additions	22,571	157,745	–	–	1,024	–	181,340
Disposals	(38,114)	–	(491)	–	–	–	(38,605)
Write offs	(15,197)	–	–	–	(556)	–	(15,753)
Assets held for sale (Note 16)	(24,783)	–	–	–	–	–	(24,783)
Exchange differences	1,099	–	(5)	(48)	(57)	(3)	986
Reclassifications	147,406	(147,406)	–	–	–	–	–
At 31 December 2016	2,093,203	57,260	600	4,261	9,738	29	2,165,091
Accumulated depreciation and impairment							
At 1 January 2016	439,787	–	117	3,293	7,677	32	450,906
Charge for the year	97,109	–	35	560	1,063	–	98,767
Impairment for the year	15,245	–	–	–	–	–	15,245
Disposals	(18,867)	–	(93)	–	–	–	(18,960)
Write offs	(15,197)	–	–	–	(556)	–	(15,753)
Assets held for sale (Note 16)	(18,963)	–	–	–	–	–	(18,963)
Exchange differences	500	–	–	(44)	(37)	(3)	416
At 31 December 2016	499,614	–	59	3,809	8,147	29	511,658
Net book value							
At 31 December 2016	1,593,589	57,260	541	452	1,591	–	1,653,433

Estimated useful lives for the year ended 2016 and 2015	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

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 2015	1,940,704	53,259	1,172	4,627	8,774	47	2,008,583
Additions	32,372	112,985	–	116	935	–	146,408
Disposals	(69,988)	–	–	(382)	(112)	(13)	(70,495)
Write offs	(15,142)	–	–	–	(196)	–	(15,338)
Exchange differences	(7,048)	–	(76)	(52)	(74)	(2)	(7,252)
Reclassifications	119,323	(119,323)	–	–	–	–	–
At 31 December 2015	2,000,221	46,921	1,096	4,309	9,327	32	2,061,906
Accumulated depreciation and impairment							
At 1 January 2015	413,378	–	107	3,121	7,014	39	423,659
Charge for the year	98,322	–	13	594	1,015	2	99,946
Disposals	(53,069)	–	–	(382)	(103)	(7)	(53,561)
Write offs	(15,142)	–	–	–	(196)	–	(15,338)
Exchange differences	(3,702)	–	(3)	(40)	(53)	(2)	(3,800)
At 31 December 2015	439,787	–	117	3,293	7,677	32	450,906
Net book value							
At 31 December 2015	1,560,434	46,921	979	1,016	1,650	–	1,611,000

(a) As at 31 December 2016, vessel and vessel component costs include the aggregate cost and accumulated depreciation of the vessel component costs amounted to US$55,507,000 (2015: US$52,659,000) and US$27,087,000 (2015: US$25,242,000) respectively.

(b) Certain owned vessels of net book value of US$1,419,515,000 (2015: US$1,470,156,000) were pledged to banks as securities for bank loans granted to the Group (Note 19(a)(i)).

Certain owned vessels of net book value of US$79,384,000 (2015: Nil) were effectively pledged as securities to other secured borrowings (Note 19(b)) as the rights to the vessels revert to the lessors in the event of default.

(c) During the year, the Group had capitalised borrowing costs amounting to US$1,995,000 (2015: US$964,000) on qualifying assets (Note 23). Borrowing costs were capitalised at the weighted average rate of 4.3% (2015: 4.2%) of the Group's general borrowings.

(d) The impairment charge related to the remaining towage vessels (US$8,062,000) and one Supramax vessel which was sold after the year end (US$7,183,000). The recoverable amount of the impaired assets was calculated as the fair value less cost to sell. Fair value assumes a willing buyer and willing seller basis under general market conditions, and it is considered a Level 3 valuation in accordance with HKFRS 13. Please refer to Note 11 (Fair value levels) for the definition of different levels.

(e) In 2015, vessels under construction included an amount of US$31,703,000 paid by the Group in relation to vessels whose construction work had not yet commenced.

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Accounting policy

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

(i) 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.

(ii) Vessels under construction

Vessels under construction are stated at cost and are not subject to depreciation. All cost of services 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.

(iii) 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.

(iv) 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.

(v) 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.

(vi) 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.

(vii) 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.

(viii) 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.

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$1.6 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$13.4 million or increase by US$21.2 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 owned vessels for minor bulks are separated as two cash-generating units ("CGUs") (Handysize and Supramax) as the vessels within each of these CGUs are considered to be interchangeable.

The value-in-use of the vessels is an assessment of assumptions and estimates of vessel future earnings and appropriate discount rates to derive the present value of those earnings. The discount rates used are based on the industry sector risk premium relevant to the CGU and the applicable gearing ratio of the CGU.

For the value-in-use assessments, the applicable discount rates are 6.8% (2015: 7.9%).

- **Sensitivity analysis:**

  With all other variables held constant, increasing the discount rates by 100 basis points from the original estimate will not give rise to any impairment.

Notes to the Financial Statements continued

7 INVESTMENT PROPERTIES

US$'000	2016	2015
At 1 January	**2,400**	2,605
Depreciation	**(34)**	(66)
Disposal	**(2,330)**	–
Exchange difference	**(36)**	(139)
At 31 December	**–**	2,400
Estimated useful lives	**–**	45 years

During the year, the Group sold all its investment properties in the PRC. The investment properties are within Level 3 of the fair value scale. Please refer to Note 11 (Fair value levels) for the definition of different levels.

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 represented prepaid operating lease payments in the PRC with lease periods between 10 to 50 years. During the year, the Group sold all its land use rights relate to "Buildings" in Note 6 and "Investment Properties" in Note 7.

US$'000	2016	2015
At 1 January	**2,686**	2,894
Amortisation	**(38)**	(73)
Disposal	**(2,612)**	–
Exchange difference	**(36)**	(135)
At 31 December	**–**	2,686

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

US$'000	2016	2015
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 the goodwill 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 6.8% (2015: 7.9%) 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 100 basis points from the original estimate will not give rise to any impairment.

10 INTERESTS IN JOINT ARRANGEMENTS

Joint operation

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:

US$'000	2016	2015
Charter-hire income included in revenue	**4,376**	4,598
Charter-hire expenses included in cost of services	**(3,219)**	(3,390)
	1,157	1,208

Accounting policy

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

11 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016			2015		
US$'000	Level 1	Level 3	Total	Level 1	Level 3	Total
Listed equity securities (a)	875	–	875	1,606	–	1,606
Unlisted equity securities (b)	–	–	–	–	529	529
	875	–	875	1,606	529	2,135

(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 and were fully impaired during the year. The fair values are determined with reference to the net asset values and by management's expectation.

Available-for-sale financial assets have been analysed using the valuation method outlined 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).

Accounting policy

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.

12 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.

Derivative assets and liabilities have been analysed by valuation method. Please refer to Note 11 (Fair value levels) for the definitions of different levels. Our derivative assets and liabilities are Level 2 financial instruments.

US$'000	2016 Total	2015 Total
Derivative assets		
Derivative assets that do not qualify for hedge accounting		
Bunker swap contracts (a)	**3,800**	–
Total	**3,800**	–
Less: non-current portion of		
Bunker swap contracts (a)	**(969)**	–
Non-current portion	**(969)**	–
Current portion	**2,831**	–
Derivative liabilities		
Cash flow hedges		
Forward foreign exchange contracts (b)	**21,506**	22,314
Interest rate swap contracts (c(i))	**788**	2,831
Derivative liabilities that do not qualify for hedge accounting		
Bunker swap contracts (a)	**5,456**	23,674
Interest rate swap contracts (c(ii))	**9**	1,633
Total	**27,759**	50,452
Less: non-current portion of		
Forward foreign exchange contracts (b)	**(21,506)**	(22,314)
Interest rate swap contracts (c(i))	**(788)**	(1,811)
Interest rate swap contracts (c(ii))	**–**	(1,633)
Bunker swap contracts (a)	**(2,566)**	(8,039)
Non-current portion	**(24,860)**	(33,797)
Current portion	**2,899**	16,655

Notes to the Financial Statements continued

12 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

(a) Bunker swap contracts

The Group enters into bunker swap contracts to manage the fluctuations in bunker prices in connection with the Group's cargo contract commitments.

Bunker swap contracts that do not qualify for hedge accounting

At 31 December 2016, the Group had outstanding bunker swap contracts to buy approximately 124,170 (2015: 114,950) metric tonnes of bunkers. These contracts expire through December 2021 (2015: December 2021).

- *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$4.0 million (2015: US$2.5 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.

(b) 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.

Forward foreign exchange contracts that qualify for hedge accounting as cash flow hedges

At 31 December 2016, the outstanding forward foreign exchange contracts held by the Group mainly consist of contracts with banks to buy Danish Kroner ("DKK") of approximately DKK 835.2 million (2015: DKK 982.4 million) and simultaneously sell approximately US$149.8 million (2015: US$176.7 million), which expire through August 2023. The Group has long-term bank borrowings denominated in DKK with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into these 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.

(c) Interest rate swap contracts

Certain secured 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.

- *Sensitivity analysis:*

  With all other variables held constant, if the average interest rate on net debt balance (2015: net cash balance) (after excluding borrowings subject to fixed interest rates) subject to floating interest rates, which includes cash and deposits net of unhedged secured 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 decrease/increase by approximately US$0.1 million (2015: US$1.1 million increase/decrease).

(i) Interest rate swap contracts that qualify for hedge accounting as cash flow hedges

Effective date	Notional amount	Swap details	Expiry
For 2016 & 2015:			
30 December 2013 & 21 January 2014	US$178 million on amortising basis	USD 3-month LIBOR swapped to a fixed rate of approximately 1.9% to 2.1% per annum	Contracts expire through December 2021
For 2015:			
2 January 2007	US$20 million	USD 6-month LIBOR swapped to a fixed rate of approximately 5.6% per annum	Contracts expired in December 2016
31 March 2009	US$20 million	USD 3-month LIBOR swapped to a fixed rate of approximately 3.0% per annum	Contracts expired in March 2016

(ii) Interest rate swap contracts that do not qualify for hedge accounting

Starting on 2 January 2007, a notional amount of US$40 million has the USD 6-month LIBOR swapped to a fixed rate of approximately 5.0% per annum so long as the USD 6-month 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 USD 6-month LIBOR is above 6.0% and reverts back to the fixed rate should the USD 6-month LIBOR subsequently drop below 6.0%. This contract expired in January 2017.

(d) Analysis of derivative income and expense

During the year ended 31 December 2016, the Group recognised net derivative income of US$7.1 million, as follows:

US$ Million	Realised	Unrealised	2016	2015	Presentation in the Financial Statements:
Income					
Forward freight agreements	–	–	**–**	0.2	
Bunker swap contracts	5.6	22.5	**28.1**	26.0	
Interest rate swap contracts	–	1.6	**1.6**	1.6	
Forward foreign exchange contracts	–	–	**–**	0.3	
	5.6	24.1	**29.7**	28.1	
Expenses					
Forward freight agreements	–	–	**–**	(0.5)	
Bunker swap contracts	(17.7)	(0.5)	**(18.2)**	(44.9)	
Interest rate swap contracts	(4.4)	–	**(4.4)**	(6.5)	
Forward foreign exchange contracts	–	–	**–**	(0.2)	
	(22.1)	(0.5)	**(22.6)**	(52.1)	
Net					
Forward freight agreements	–	–	**–**	(0.3)	*Other income/Other expenses*
Bunker swap contracts	(12.1)	22.0	**9.9**	(18.9)	*Cost of services*
Interest rate swap contracts	(4.4)	1.6	**(2.8)**	(4.9)	*Finance costs*
Forward foreign exchange contracts	–	–	**–**	0.1	*General and administrative expenses*
	(16.5)	23.6	**7.1**	(24.0)	

Realised:
- *Cash settlement of contracts completed in the year*

Unrealised:
- *Contracts to be settled in future years*
- *Accounting reversal of earlier year contracts now completed*

The application of HKAS 39 “Financial Instruments: Recognition and Measurement” has the effect of shifting to the current year the estimated results of the derivative contracts that expire in future periods. On 31 December 2016 this created a net unrealised non-cash income of US$23.6 million (2015: US$8.8 million). The cash flows of these contracts will occur in future reporting years.

Notes to the Financial Statements continued

12 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 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.

13 TRADE AND OTHER RECEIVABLES

US$'000	2016	2015
Non-current receivables		
Prepayments	**5,405**	5,559
Current receivables		
Trade receivables – gross	**32,960**	37,406
Less: provision for impairment	**(1,685)**	(2,749)
Trade receivables – net	**31,275**	34,657
Other receivables	**26,296**	43,117
Prepayments	**23,369**	9,712
	80,940	87,486

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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.

Accounting policy – Trade and other receivables

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.

At 31 December 2016, the ageing of net trade receivables based on invoice date is as follows:

US$'000	2016	2015
< 30 days	**24,872**	21,824
31-60 days	**800**	3,270
61-90 days	**345**	2,988
> 90 days	**5,258**	6,575
	31,275	34,657

Movements in the provision for impairment of trade receivables are as follows:

US$'000	2016	2015
At 1 January	**2,749**	1,935
Provision for receivable impairment	**976**	2,123
Reversal of prior year overprovision	**(552)**	(189)
Total charge to income statement	**424**	1,934
Amount written off during the year	**(1,488)**	(1,120)
At 31 December	**1,685**	2,749

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 2016 and 2015, 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

14 CASH AND DEPOSITS

US$'000	2016	2015
Cash at bank and on hand	**50,505**	47,186
Bank deposits	**218,699**	311,242
Total cash and deposits	**269,204**	358,428
Average effective interest rate on bank deposits at year end	**1.60%**	0.84%
Average remaining maturity of bank deposits	**98 days**	68 days
Cash and cash equivalents	**168,679**	199,737
Term deposits	**100,467**	158,633
Cash and deposits	**269,146**	358,370
Restricted bank deposits included in non-current assets	**58**	58
Total cash and deposits	**269,204**	358,428

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

15 INVENTORIES

US$'000	2016	2015
Bunkers	**52,375**	41,128
Lubricating oil	**10,117**	9,657
	62,492	50,785

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.

16 ASSETS HELD FOR SALE

The assets held for sale comprised four towage vessels. The carrying amounts of the vessels of US$5,820,000 represented the estimated fair value less costs to sell and reclassified from property, plant and equipment (Note 6) accordingly.

Accounting policy – Assets held for sale

Assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

17 TRADE AND OTHER PAYABLES

US$'000	2016	2015
Non-current payables		
Receipts in advance	**5,856**	–
Current payables		
Trade payables	**51,569**	30,566
Accruals and other payables	**51,236**	56,361
Receipts in advance	**37,820**	30,437
	140,625	117,364

At 31 December 2016, the ageing of trade payables based on due date is as follows:

US$'000	2016	2015
< 30 days	**45,327**	25,338
31-60 days	**670**	372
61-90 days	**402**	833
> 90 days	**5,170**	4,023
	51,569	30,566

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.

18 PROVISION FOR ONEROUS CONTRACTS

US$'000	2016	2015
At 1 January	**79,582**	100,906
Utilised during the year (Note 22)	**(27,664)**	(21,324)
At 31 December	**51,918**	79,582
Analysis of provisions		
Current	**20,354**	27,664
Non-current	**31,564**	51,918
	51,918	79,582

Provision for onerous contract utilised during the year was credited to other income.

Accounting policy

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 of rates for 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 5% from management estimates over the next 5 years, the provision for onerous contracts would decrease/increase by US$14 million.

19 LONG-TERM BORROWINGS

US$'000	2016	2015
Non-current		
Secured bank loans (a)	**599,102**	519,783
Other secured borrowings (b)	**29,033**	–
Unsecured convertible bonds (c)	**115,372**	113,443
	743,507	633,226
Current		
Secured bank loans (a)	**91,734**	73,684
Other secured borrowings (b)	**4,001**	–
Unsecured convertible bonds (c)	**–**	219,055
	95,735	292,739
Total long-term borrowings	**839,242**	925,965

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 and are within Level 2 of the fair value scale. Please refer to Note 11 (Fair value levels) for the definition of different levels.

The 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.

Notes to the Financial Statements continued

19 LONG-TERM BORROWINGS (CONTINUED)

(a) Secured bank loans

The Group's secured bank loans as at 31 December 2016 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels with net book values of US$1,419,515,000 (2015: US$1,470,156,000) (Note 6(b)); and

(ii) Assignment of earnings and insurances compensation in respect of the vessels.

These secured bank loans are repayable as follows:

US$'000	2016	2015
Within one year	91,734	73,684
In the second year	88,944	78,899
In the third to fifth year	303,226	254,381
After the fifth year	206,932	186,503
	690,836	593,467
Average effective interest rate at year end (before hedging)	3.0%	2.8%

(b) Other secured borrowings

The Group's other secured borrowings as at 31 December 2016 were in respect of five owned vessels with net book values of US$79,384,000 (2015: Nil) (Note 6(b)) which were sold and simultaneously leased back by the Group on a bareboat charter basis during the year. Under the terms of the leases, the Group has options to purchase these vessels at pre-determined timings during the lease period and is obliged to purchase these vessels upon the expiry of the respective lease. Such borrowings are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

These other secured borrowings are repayable as follows:

US$'000	2016
Within one year	4,001
In the second year	4,124
In the third to fifth year	15,123
After the fifth year	9,786
	33,034
Average effective interest rate at year end (before hedging)	4.6%

(c) Unsecured convertible bonds

	2016		2015	
US$'000	Face value	Liability component	Face value	Liability component
3.25% coupon due 2021	125,000	115,372	125,000	113,443
1.75% coupon due 2016 (i)	–	–	105,590	105,140
1.875% coupon due 2018 (ii)	–	–	123,800	113,915
Total	125,000	115,372	354,390	332,498

(i) On 12 April 2016, 1.75% coupon convertible bonds with an aggregate nominal value of US$105.6 million were redeemed upon maturity and cancelled at 100% of the principal amount and an equity movement of US$14.8 million credited to retained earnings was recognised.

During 2015, the same bonds with an aggregate nominal value of US$104.0 million were bought back and cancelled at a consideration of US$103.3 million including accrued interest. Losses of US$0.1 million were recognised in the income statement and an equity movement of US$14.0 million credited to retained earnings was recognised upon the derecognition of the respective liability and equity components.

(ii) All bondholders of the 1.875% coupon convertible bonds exercised their right to require the Group to redeem all their bonds on 24 October 2016. As a result, all the bonds with an aggregate nominal value of US$123.8 million were redeemed and, on the same day, cancelled at 100% of the principal amount resulting in a gain of US$0.5 million recognised in the income statement and an equity movement of US$11.4 million being credited to retained earnings.

The carrying value of convertible bonds approximate their fair values.

Key items	3.25% coupon due 2021
Issue size	US$125.0 million
Issue date	8 June 2015
Maturity date	3 July 2021 (approximately 6.1 years from issue)
Coupon – cash cost	3.25% p.a. payable semi-annually in arrears on 3 January and 3 July
Effective interest rate	5.70% charged to income statement
Redemption price	100%
Conversion price converting bonds into shares (Note)	HK$3.07 (with effect from 30 May 2016)
Conversion at bondholders' options	Any time on or after 19 July 2015
Bondholder put date for redemption at 100% of the principal amount	On 3 July 2019 (approximately 4.1 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 for redemption at 100% of the principal amount	After 3 July 2019, the Group may redeem the bonds in whole, 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.

Note: The conversion price was subject to an adjustment arising from the issue of Shares by way of rights (Note 20(b)) during 2016. The conversion price was also subject to an adjustment arising from any cash dividends paid by the Company according to a pre-determined adjustment factor. Such adjustment would have become effective on the first date on which the Shares were traded ex-dividend had a dividend been declared.

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.

Notes to the Financial Statements continued

20 SHARE CAPITAL

	2016 Number of shares	2016 US$'000	2015 Number of shares	2015 US$'000
Authorised	36,000,000,000	360,000	3,600,000,000	360,000
Issued and fully paid				
At 1 January	1,945,855,119	194,480	1,933,666,119	191,781
Capital reduction (a)	–	(175,117)	–	–
Rights issue (b)	1,946,823,119	19,468	–	–
Shares issued to compensate the shipowners for the Charter Hire Reduction (c)	79,979,037	800	–	–
Shares purchased by trustee of the SAS (d)	(16,413,000)	(1,809)	(1,452,000)	(530)
Shares granted to employees in the form of restricted share awards (d)	17,951,000	2,173	4,205,000	2,463
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (d)	41,688,000	417	9,846,000	985
Shares transferred back to trustee upon lapse of restricted share awards (d)	(1,371,000)	(366)	(410,000)	(219)
At 31 December	4,014,512,275	40,046	1,945,855,119	194,480

The issued share capital of the Company as at 31 December 2016 was 4,015,313,275 shares (2015: 1,946,823,119 shares). The difference from the number of shares in the table above of 801,000 (2015: 968,000) represents shares held by the trustee in relation to restricted share awards, amounting to US$107,100 (2015: US$202,700) as a debit to share capital.

(a) Capital reduction

Pursuant to a special resolution passed by the shareholders of the Company at a special general meeting held on 27 May 2016, the nominal value of each share was reduced from US$0.10 to US$0.01 by cancelling the paid up capital of US$0.09 on each share. The capital reduction took effect on 27 May 2016.

A new reserve entitled "contributed surplus" (Note 21) represents the amount of the capital reduction transferred from the share capital and share premium accounts as a result of the capital reorganisation of the Company that took effect on 27 May 2016.

Under the Company Act 1981 of Bermuda (as amended), the contributed surplus is available for distribution, but the Company cannot make a distribution out of the contributed surplus if: (i) it is, or would after the payment be, unable to pay its liabilities as they become due; or (ii) the realisable value of its assets would thereby be less than its liabilities.

(b) Rights issue

Pursuant to an ordinary resolution passed by shareholders of the Company at a special general meeting held on 27 May 2016, the shareholders approved a rights issue of 1,946,823,119 rights shares at a price of HK$0.6 each on the basis of one rights share for every existing share. The rights issue was completed on 27 June 2016.

(c) Shares issued for Charter Hire Reduction

On 31 October 2016, a total of 79,979,037 shares were issued at a price of HK$1.218 each to 10 shipowners or their nominees in return for a US$12.6 million reduction in long-term charter hire rates ("Charter Hire Reduction").

(d) Restricted share awards

Restricted share awards under the Company's 2013 Share Award Scheme ("SAS") were granted to Executive Directors and certain employees. The SAS 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	2016	2015
At 1 January	**26,409**	23,540
Granted	**59,639**	14,051
Vested	**(17,421)**	(10,772)
Lapsed	**(1,371)**	(410)
At 31 December	**67,256**	26,409

During the year, a total of 59,639,000 (2015: 14,051,000) restricted share awards were granted to certain employees. Following the Company's rights issue (Note (b)), an adjustment was made pursuant to the rules of the SAS. Hence, awards granted during the year comprised the annual grant as well as the adjustment for awards vesting in 2016, 2017 and 2018. 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

The sources of the shares granted and their related movement between share capital and staff benefits reserve are as follows:

Sources of shares granted	2016 Number of granted shares awards	2016 Related movement US$'000	2015 Number of granted shares awards	2015 Related movement US$'000
Shares issued	**41,688,000**	**417**	9,012,000	901
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**16,413,000**	**1,809**	1,452,000	530
Shares transferred from the trustee	**1,538,000**	**364**	3,587,000	2,017
	59,639,000	**2,590**	14,051,000	3,448

The vesting periods and grant dates of the unvested restricted share awards as at 31 December 2016 are as follows:

Grant dates	Number of unvested share awards	Vesting periods 14 July 2017	Vesting periods 14 July 2018	Vesting periods 14 July 2019
5 May 2014	9,778,000	9,778,000	–	–
13 August 2014	666,000	666,000	–	–
17 April 2015	23,858,000	1,704,000	22,154,000	–
12 August 2016	32,954,000	2,332,000	2,332,000	28,290,000
	67,256,000	14,480,000	24,486,000	28,290,000

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.

Notes to the Financial Statements continued

21 RESERVES

	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Exchange reserve	Contributed surplus	Subtotal	Retained profits	Total
At 1 January 2016	604,821	(56,606)	47,920	(2,580)	(25,145)	(5,185)	–	563,225	213,233	776,458
Capital reduction (Note 20(a))	(604,821)	–	–	–	–	–	779,938	175,117	–	175,117
Rights issue, net of issuing expenses (Note 20(b))	123,304	–	–	–	–	–	–	123,304	–	123,304
Loss attributable to shareholders	–	–	–	–	–	–	–	–	(86,547)	(86,547)
Shares issued to compensate the shipowners for the Charter Hire Reduction (Note 20(c))	11,736	–	–	–	–	–	–	11,736	–	11,736
Derecognition of equity component upon CB redemption/buyback	–	–	(34,148)	–	–	–	–	(34,148)	26,182	(7,966)
Share-based compensation (see Remuneration Report)	–	–	–	4,207	–	–	–	4,207	–	4,207
Share awards granted (Note 20(d))	–	–	–	(1,257)	–	–	–	(1,257)	75	(1,182)
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (Note 20(d))	4,500	–	–	(2,757)	–	–	–	1,743	(2,160)	(417)
Share awards lapsed (Note 20(d))	–	–	–	366	–	–	–	366	–	366
Share awards fully vested	347	–	–	(347)	–	–	–	–	–	–
Cash flow hedges										
– transferred to finance costs in income statement	–	–	–	–	3,549	–	–	3,549	–	3,549
– fair value losses	–	–	–	–	(699)	–	–	(699)	–	(699)
Release of exchange reserve upon disposal of towage assets	–	–	–	–	–	2,815	–	2,815	–	2,815
Currency translation differences	–	–	–	–	–	(16)	–	(16)	–	(16)
At 31 December 2016	139,887	(56,606)	13,772	(2,368)	(22,295)	(2,386)	779,938	849,942	150,783	1,000,725

(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.

US$'000	Other reserves								Retained profits	Total
	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal		
At 1 January 2015	604,104	(56,606)	48,755	(4,373)	(12,439)	1,102	(1,664)	578,879	231,086	809,965
Cash flow hedges										
– fair value losses	–	–	–	–	(18,885)	–	–	(18,885)	–	(18,885)
– transferred to finance costs in income statement	–	–	–	–	6,179	–	–	6,179	–	6,179
Loss attributable to shareholders	–	–	–	–	–	–	–	–	(18,540)	(18,540)
Equity component of CB issued	–	–	13,772	–	–	–	–	13,772	–	13,772
Derecognition of equity component upon exercise of CB put options	–	–	(14,607)	–	–	–	–	(14,607)	14,045	(562)
Dividends paid (Note 25)	–	–	–	–	–	–	–	–	(12,368)	(12,368)
Share-based compensation (see Remuneration Report)	–	–	–	4,749	–	–	–	4,749	–	4,749
Share awards granted (Note 20(d))	–	–	–	(2,463)	–	–	–	(2,463)	–	(2,463)
Shares issued upon grant of restricted share awards (Note 20(d))	–	–	–	(985)	–	–	–	(985)	–	(985)
Share awards lapsed (Note 20(d))	–	–	–	219	–	–	–	219	–	219
Share awards fully vested	717	–	–	273	–	–	–	990	(990)	–
Currency translation differences	–	–	–	–	–	–	(2,497)	(2,497)	–	(2,497)
Fair value losses on available-for-sale financial assets	–	–	–	–	–	(1,102)	–	(1,102)	–	(1,102)
Release of exchange reserve upon:										
– repayment of shareholder loans by subsidiaries	–	–	–	–	–	–	(669)	(669)	–	(669)
– disposal of a joint venture	–	–	–	–	–	–	(355)	(355)	–	(355)
At 31 December 2015	604,821	(56,606)	47,920	(2,580)	(25,145)	–	(5,185)	563,225	213,233	776,458

Notes to the Financial Statements continued

22 OTHER INCOME AND GAINS

US$'000	2016	2015
Utilisation of provision for onerous contracts (Note 18)	27,664	21,324
Gains on disposal of other property, plant and equipment	1,188	372
OMSA joint venture sale completion adjustments	650	4,610
Gains on disposal of investment properties	469	–
Gains on disposal of a joint venture	–	3,514
Write-back provision for harbour towage business	–	1,522
Gains on forward freight agreements (Note 12(d))	–	234
	29,971	31,576

23 FINANCE INCOME AND COSTS

US$'000	2016	2015
Finance income		
Bank interest income	(2,748)	(2,925)
Other interest income	(2)	(1,544)
Total finance income	(2,750)	(4,469)
Finance costs		
Borrowings		
Interest on secured bank loans	19,154	15,861
Interest on unsecured convertible bonds	12,353	17,149
Interest on other secured borrowings	510	–
Interest on finance lease liabilities	–	1,030
Net losses on interest rate swap contracts	2,823	4,893
Other finance charges	1,080	1,826
	35,920	40,759
Less: amounts capitalised as PP&E (Note 6(c))	(1,995)	(964)
Total finance costs	33,925	39,795
Finance costs, net	31,175	35,326

24 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 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	2016	2015
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2015: 16.5%)	715	665
Overseas tax, provided at the rates of taxation prevailing in the countries	319	438
Adjustments in respect of prior year	(49)	76
Tax charges	985	1,179

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	2016	2015
Loss before taxation	(85,562)	(17,361)
Add: share of profits of a joint venture	–	(178)
	(85,562)	(17,539)
Tax calculated at applicable tax rates	(14,734)	(2,146)
Income not subject to taxation	(93,435)	(118,295)
Expenses not deductible for taxation purposes	109,203	121,544
Adjustments in respect of prior year	(49)	76
Taxation charge	985	1,179
Weighted average applicable tax rate	17.2%	12.2%

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.

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

24 TAXATION (CONTINUED)

Critical accounting estimates and judgements – Income taxes

The Group is subject to income taxes in certain jurisdictions. There are transactions entered into where the ultimate tax determination and tax classification may be uncertain. Significant judgement is required in determining the provision for income taxes. The current provision in the balance sheet for income tax of US$1,054,000 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.

25 DIVIDENDS

No final dividends were declared in respect of the years ended 31 December 2016 and 2015. The 2014 final dividend of HK5 cents or US0.6 cents per share resulted in a total of US$12,368,000 being paid during 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.

26 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 unvested restricted shares (Note 20(d)).

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 (Note 20(d)).

The weighted average number of shares used in the calculation of earnings per share have been adjusted for the bonus element of the rights issue following the rights issue completion in June 2016 (Note 20(b)) and the prior year comparative has also been restated to reflect such effect.

		Basic & Diluted 2016	Basic & Diluted 2015 (restated)
Loss attributable to shareholders	(US$'000)	**(86,547)**	(18,540)
Weighted average number of ordinary shares in issue	('000)	**3,285,006**	2,643,000
Earnings per share	(US cents)	**(2.63)**	(0.70)
Equivalent to	(HK cents)	**(20.44)**	(5.44)

Diluted earnings per share for the year ended 31 December 2016 and 2015 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.

27 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of losses before taxation to cash generated from operations:

US$'000	2016	2015
Loss before taxation	(85,562)	(17,361)
Adjusted for:		
Assets and liabilities adjustments:		
Depreciation	98,801	100,012
Amortisation of land use rights	38	73
Utilisation of onerous contracts	(27,664)	(21,324)
Net unrealised gains on derivative instruments not qualified as hedges, excluding interest rate swap contracts	(22,018)	(7,224)
OMSA joint venture sale completion adjustments	(650)	(4,610)
Gain on disposal of a joint venture	–	(3,514)
Provision for impairment losses		
– Vessels	15,245	–
– Available-for-sale financial assets	1,260	889
– Trade receivables	424	1,934
Write-back provision for harbour towage business	–	(1,522)
Losses on disposal of property, plant and equipment	3,776	307
Gains on disposal of investment properties	(469)	–
Capital and funding adjustments:		
Share-based compensation	4,207	4,749
Results adjustments:		
Finance costs, net	31,175	35,326
Share of profit of a joint venture	–	(178)
Net foreign exchange losses	3,182	2,305
Profit before taxation before working capital changes	21,745	89,862
(Increase)/decrease in inventories	(11,707)	28,712
Decrease in trade and other receivables	12,764	19,326
Increase/(decrease) in trade and other payables	28,229	(38,171)
Cash generated from operations	51,031	99,729

Notes to the Financial Statements continued

28 COMMITMENTS

(a) Capital commitments

US$'000	2016	2015
Contracted but not provided for – vessel acquisitions and shipbuilding contracts	**119,054**	273,787

Capital commitments for the Group that fall due in one year or less amounted to US$119.1 million (2015: US$171.4 million).

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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	Land and buildings	Total
At 31 December 2016			
Within one year	**157,497**	**3,612**	**161,109**
In the second to fifth year	**340,404**	**8,037**	**348,441**
After the fifth year	**51,491**	**2,268**	**53,759**
	549,392	**13,917**	**563,309**
At 31 December 2015			
Within one year	154,329	3,517	157,846
In the second to fifth year	428,331	3,458	431,789
After the fifth year	92,733	908	93,641
	675,393	7,883	683,276

The Group's operating leases for dry bulk vessels have terms ranging from less than 1 year to 10 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 vessels	Tugs	Total
At 31 December 2016			
Within one year	**22,475**	**–**	**22,475**
In the second to fifth year	**57,670**	**–**	**57,670**
After the fifth year	**29,719**	**–**	**29,719**
	109,864	**–**	**109,864**
At 31 December 2015			
Within one year	19,133	2,197	21,330
In the second to fifth year	63,619	–	63,619
After the fifth year	39,570	–	39,570
	122,322	2,197	124,519

The Group's operating leases have terms extending 15 years into the future and they mainly represent the receipts from two Post- Panamax dry bulk vessels amounting to US$103.3 million (2015: US$119.1 million).

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.

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Strategy Delivery & Risks
Enhancing Corporate & Financial Profile

Notes to the Financial Statements continued

29 FINANCIAL LIABILITIES SUMMARY

This note should be read in conjunction with the Liquidity Risk section on page 22. The maturity profile of the Group's financial liabilities, net-settled derivative financial instruments and gross-settled derivative financial instruments based on the remaining period from the balance sheet date to the contractual maturity date are summarised below. These represented contractual cash flows which include principal and interest elements where applicable.

	Within one year		In the second year		In the third to fifth year		After the fifth year		Total	
US$'000	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Long-term borrowings										
– Secured bank loans	**114,868**	92,812	**110,936**	97,082	**351,829**	296,333	**231,283**	200,511	**808,916**	686,738
– Other secured borrowings	**5,550**	–	**5,532**	–	**18,096**	–	**10,503**	–	**39,681**	–
– Unsecured convertible bonds	**4,063**	236,980	**4,063**	4,062	**129,063**	133,125	**–**	–	**137,189**	374,167
Derivative financial instruments										
(i) Net-settled (a)										
– Interest rate swap contracts	**923**	4,136	**238**	576	**(376)**	(211)	**–**	(43)	**785**	4,458
– Bunker swap contracts	**2,890**	15,635	**1,270**	5,057	**1,296**	2,798	**–**	184	**5,456**	23,674
(ii) Gross-settled (b)										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	**25,960**	24,638	**26,922**	25,873	**75,261**	72,116	**31,603**	51,833	**159,746**	174,460
– inflow	**(20,340)**	(19,636)	**(21,339)**	(20,887)	**(60,171)**	(58,687)	**(25,454)**	(42,711)	**(127,304)**	(141,921)
Net outflow	**5,620**	5,002	**5,583**	4,986	**15,090**	13,429	**6,149**	9,122	**32,442**	32,539
Current liabilities										
Trade and other payables	**102,805**	86,927	**–**	–	**–**	–	**–**	–	**102,805**	86,927

(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.

30 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 was the key management compensation. For the compensation of key management (including Directors' emoluments) and the accounting policy on employee benefits, please refer the Remuneration Report on page 38 to 40.

31 FINANCIAL GUARANTEES

At 31 December 2016, the Company has given corporate guarantees with maximum exposures of US$705.0 million (2015: US$666.1 million) for certain subsidiaries in respect of Group's loan facilities granted.

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.

32 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Group has no contingent liabilities and contingent assets at 31 December 2016 and 2015.

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.

33 EVENTS AFTER THE BALANCE SHEET DATE

Subsequent to 31 December 2016,

(a) the Group has contracted with a third party to purchase one 7-year old Supramax vessel for approximate US$12 million,

(b) the Group has contracted with a third party to sell one 12-year old smaller Supramax vessel and received net cash proceeds of approximate US$5 million, and

(c) the Group has contracted with a third party to sell one tug and received net cash proceeds of approximate US$2 million.

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Notes to the Financial Statements continued

34 PRINCIPAL SUBSIDIARIES

At 31 December 2016, the Company has direct and indirect interests in the following principal subsidiaries:

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
Shares held directly:				
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.4) Limited	BVI	US$1	100	Convertible bond issuer
Shares held indirectly:				
Dry Bulk:				
Astoria Bay Limited	HK/Int'l	HK$1	100	Vessel chartering
Baker River Limited	HK/Int'l	HK$1	100	Vessel 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 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
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/Int'l	HK$1	100	Vessel owning and chartering
Illovo River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Imabari Logger Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Impression Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Incheon Bay Limited	HK	HK$1	100	Vessel owning
Indian Ocean Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Indigo Lake Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
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	HK/Int'l	HK$1	100	Vessel owning and chartering

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
Kanda Logger Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Key West Shipping Limited	HK	HK$1	100	Vessel owning
Kodiak Island Limited	HK	HK$1	100	Vessel owning
Kultus Cove Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
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
Longview Logger Limited	HK/Int'l	HK$1	100	Vessel 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/Int'l	HK$1	100	Vessel owning and chartering
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
Mount Seymour Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
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/Int'l	HK$1	100	Vessel owning and chartering
Orange River Shipping Limited	HK/Int'l	HK$1	100	Vessel 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/Int'l	HK$1	100	Vessel owning and chartering
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
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

Notes to the Financial Statements continued

34 PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation [3]	Issued and fully paid share capital	Interest held %	Principal activities
Others:				
Pacific Basin Agencies Limited 太平洋航運代理有限公司	HK/Int'l	HK$10	100	Holding company of Japan branch
Pacific Basin Supramax Limited	HK	HK$10	100	Provision of ship management and ocean shipping services
Pacific Basin Handymax (UK) Limited	England & W	GBP1	100	Ship management services
Pacific Basin Handysize Limited	BVI/HK	US$10	100	Provision of ship management and ocean shipping services
Pacific Basin Handysize (HK) Limited	HK	HK$10	100	Provision of ship management and ocean shipping services
Pacific Basin (UK) Limited	England & W	GBP2	100	Shipping consulting services
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 (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	AED500,000	100	Shipping consulting services
Pacific Basin Shipping (New Zealand) Limited	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	England & 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
PB Offshore (No. 2) Limited	Cook/Int'l	US$10	100	Tug owning and chartering
PB Progress Limited	Cook/Int'l	US$2	100	Tug 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	Tug owning and chartering
PB Towage Middle East Limited	Cook/Int'l	US$2	100	Ship management services
PBS Corporate Secretarial Limited	HK	HK$10	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$6,067,000 (2015: US$5,951,000 profit) and US$556,000 gain (2015: US$462,000 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", "England & W" represents "England and Wales", "HK" represents "Hong Kong" and "Int'l" represents "International".

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY

(a) Balance Sheet of the Company

	Note	As at 31 December 2016 US$'000	 2015 US$'000
ASSETS			
Non-current assets			
Investments in subsidiaries		**1,321,582**	1,320,620
Current assets			
Prepayments and other receivables		**89**	72
Amounts due from subsidiaries		**288,015**	141,155
Cash and cash equivalents		**67**	36
		288,171	141,263
Total assets		**1,609,753**	1,461,883
EQUITY			
Capital and reserves attributable to shareholders			
Share capital	20	**40,046**	194,480
Retained profits		**638,064**	635,938
Other reserves		**917,457**	602,241
Total equity		**1,595,567**	1,432,659
LIABILITIES			
Current liabilities			
Accruals and other payables		**398**	666
Amounts due to subsidiaries		**13,788**	28,558
Total liabilities		**14,186**	29,224

Approved by the Board of Directors on 28 February 2017

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Notes to the Financial Statements continued

35 BALANCE SHEET AND RESERVE MOVEMENT OF THE COMPANY (CONTINUED)

(b) Reserve movement of the Company

US$'000	Other reserves: Share premium	Other reserves: Staff benefits reserve	Other reserves: Contributed surplus	Other reserves: Subtotal	Retained profits	Total
At 1 January 2016	**604,821**	**(2,580)**	**–**	**602,241**	**635,938**	**1,238,179**
Capital reduction (Note 20(a))	**(604,821)**	**–**	**779,938**	**175,117**	**–**	**175,117**
Rights issue, net of issuing expenses (Note 20(b))	**123,304**	**–**	**–**	**123,304**	**–**	**123,304**
Shares issued due to the adjustment for rights issue and upon grant of restricted share awards (Note 20(d))	**4,500**	**(2,757)**	**–**	**1,743**	**(2,160)**	**(417)**
Shares issued to compensate the shipowners for the Charter Hire Reduction (Note 20(c))	**11,736**	**–**	**–**	**11,736**	**–**	**11,736**
Share-based compensation (see Remuneration Report)	**–**	**4,207**	**–**	**4,207**	**–**	**4,207**
Share awards granted (Note 20(d))	**–**	**(1,257)**	**–**	**(1,257)**	**75**	**(1,182)**
Share awards lapsed (Note 20(d))	**–**	**366**	**–**	**366**	**–**	**366**
Share awards fully vested	**347**	**(347)**	**–**	**–**	**–**	**–**
Loss attributable to shareholders	**–**	**–**	**–**	**–**	**4,211**	**4,211**
At 31 December 2016	**139,887**	**(2,368)**	**779,938**	**917,457**	**638,064**	**1,555,521**
At 1 January 2015	604,104	(4,373)	–	599,731	651,206	1,250,937
Dividends paid (Note 25)	–	–	–	–	(12,368)	(12,368)
Share-based compensation (see Remuneration Report)	–	4,749	–	4,749	–	4,749
Share awards granted (Note 20(d))	–	(2,463)	–	(2,463)	–	(2,463)
Share awards lapsed (Note 20(d))	–	219	–	219	–	219
Share awards fully vested	717	273	–	990	(990)	–
Shares issued upon grant of restricted share awards (Note 20(d))	–	(985)	–	(985)	–	(985)
Loss attributable to shareholders	–	–	–	–	(1,910)	(1,910)
At 31 December 2015	604,821	(2,580)	–	602,241	635,938	1,238,179

Loss attributable to shareholders of US$4,211,000 (2015: US$1,910,000) is dealt with in the financial statements of the Company.

Independent Auditor's Report

To the shareholders of Pacific Basin Shipping Limited

(incorporated in Bermuda with limited liability)

OPINION

What we have audited

The consolidated financial statements of Pacific Basin Shipping Limited ("PBSL" or the "Company") and its subsidiaries (the "Group") set out on pages 52 to 94, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended,
- the consolidated statement of changes in equity for the year then ended;
- the consolidated cash flow statement for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current year. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit are summarised as follows:

- Carrying value of dry bulk vessels
- Provision for onerous contracts

Independent Auditor's Report continued

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Carrying value of dry bulk vessels *Refer to note 6 to the consolidated financial statements.* As at 31 December 2016, the Group has a large fleet of dry bulk vessels, totalling US$1,651 million. The owned vessels for minor bulks are separated as two Cash-Generating Units ("CGUs") (Handysize and Supramax) as the vessels within each of these CGUs are considered to be interchangeable. The net asset value of the Group at 31 December 2016 is more than its market capitalisation. This factor, together with the challenging market conditions, are considered as indicators of impairment. Management has therefore performed an impairment assessment of the Group's dry bulk vessels. The carrying value of the dry bulk vessels is supported by value-in-use calculations which are based on future discounted cash flows of each CGU. Management concluded that the dry bulk vessels were not impaired based on the results of the assessment which involved significant judgements, including forecast utilisation, daily time charter equivalent ("TCE") rates, inflation rates and discount rates applied to the future cash flows.	We evaluated management's impairment assessment by assessing the valuation methodology, the future discounted cash flows used in the value-in-use model and the process by which they are drawn up, including comparing them to the latest Board of Directors approved budgets, and assessing the underlying assumptions, including: ■ the forecast daily TCE rates were compared with long term historical actual results and published external industry forecasts; ■ the inflation rates of operating expenses and general and administrative expenses were compared with economic forecasts; ■ the forecast utilisation rates were compared with historical actual results; ■ the discount rate was assessed with our specialist knowledge of discount rates for the industry and with comparable organisations; ■ we evaluated the reasonableness of historical budgets and forecasts, this includes, comparing the forecast utilisation, charter rates and operating expenses used in the prior year value-in-use model against the actual performance of the business in the current year; ■ we performed sensitivity analyses over the assumptions set out above by reference to our knowledge of the business and industry. We found the Group's judgements and assumptions used in the impairment assessment to be reasonable based on the available evidence.

KEY AUDIT MATTER	HOW OUR AUDIT ADDRESSED THE MATTER
Provision for onerous contracts *Refer to note 18 to the consolidated financial statements.* The Group has entered into a number of charter-in contracts and is therefore committed to significant future lease payments. A provision should be made for future lease obligations where the cost of those obligations exceeds the economic benefits expected to be received under the lease. Following the market downturn, the market freight rate remains at a low level and management therefore performed an assessment of the Group's charter-in contracts to identify any onerous contracts that may require provisioning. The onerous contracts are assessed on a fleet basis. The charter-in dry bulk fleet has been separated as 2 sub-categories, namely Handysize and Supramax, as the vessels within each of these sub-categories are considered to be interchangeable. Management compared the expected future cash inflows against the committed costs under the operation of the charter-in contracts, and concluded that as at 31 December 2016, an onerous contracts provision of US$52 million was required and fully provided for. The conclusion is based on significant judgements including economic benefits expected under the contracts, calculated using expected daily TCE rates and utilisation rates for the remaining period of the charter term to determine future cash inflows.	Our procedures performed to assess the provision for onerous contracts included: ■ Checking the completeness of the lease commitments list, which is used to compile the onerous contract assessment, by reference to charter hire expense of the chartered in vessels charged to the income statement in the current year. ■ Agreeing details of the charter-in contracts on the lease commitments list, such as the charter hire rate and charter-in period, to the charter-in contracts on a sample basis. ■ Assessing the reasonableness of key assumptions, including TCE rates and utilisation rates as used in the impairment assessment of the dry bulk vessels. ■ Checking the calculation of the resulting provision, based on the difference between expected future cash inflows and committed costs. We found the Group's judgements and assumptions used in the onerous contract assessment to be reasonable based on the available evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

Independent Auditor's Report continued

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We 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.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is Gayle Donohue.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 28 February 2017

Group Financial Summary

US$'000		2016	2015	2014	2013	2012
Results						
Continuing operations						
Revenue		**1,087,371**	1,260,291	1,718,454	1,708,792	1,443,086
Gross (loss)/profit		**(54,325)**	(4,111)	(39,624)	55,097	85,315
(Loss)/profit before taxation		**(85,562)**	(17,361)	(278,525)	11,026	53,845
Taxation		**(985)**	(1,179)	(1,217)	(1,168)	(1,624)
(Loss)/profit for the year		**(86,547)**	(18,540)	(279,742)	9,858	52,221
Discontinued operations						
Loss for the year		**–**	–	(5,222)	(8,335)	(210,693)
Eligible (loss)/profit attributable to shareholders		**(86,547)**	(18,540)	(284,964)	1,523	(158,472)
Balance Sheet						
Total assets		**2,107,225**	2,145,735	2,307,516	2,537,446	2,470,275
Total liabilities		**(1,066,454)**	(1,174,797)	(1,305,770)	(1,233,152)	(1,138,254)
Total equity		**1,040,771**	970,938	1,001,746	1,304,294	1,332,021
Net borrowings		**570,038**	567,537	636,319	551,163	178,013
Total cash and deposits		**269,204**	358,428	363,425	486,062	753,458
Cash Flows						
From operating activities		**49,521**	98,615	93,652	98,142	148,737
From investment activities of which		**(98,643)**	(54,852)	(131,683)	(114,186)	(247,600)
gross investment in vessels		**(181,340)**	(146,408)	(194,472)	(456,497)	(188,295)
From financing activities		**18,112**	(100,420)	(112,536)	36,773	110,181
Other Data						
Basic EPS [2]	US cents	**(3)**	(1)	(15)	0.1	(8)
Dividends per share [1 & 2]	US cents	**–**	–	1	1	1
Eligible profit payout ratio [2]		**–**	–	>100%	>100%	>100%
Operating cash flows per share [2]	US cents	**2**	4	5	5	8
Company net book value per share [2]	US cents	**26**	36	52	67	69
Dividends	US$'000	**–**	–	12,368	12,385	12,397

1 No final dividend is proposed for 2016.

2 "Other Data" for the years ended 31 December 2012 to 2014 is extracted from the Group Financial Summary in our Annual Reports of those years. No retrospective adjustments for the June 2016 rights issue were made to such information.

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