69 Group Performance Review
70 Financial Statements
76 Notes to the Financial Statements
123 Independent Auditor's Report
124 Group Financial Summary
Page 70 - 122

Financial Statements

Group Performance Review

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

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

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

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

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

Segment Net Profit

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

Page 24
Page 29

Segments
Management analyses the Group's performance in two reporting segments:
- Pacific Basin Dry Bulk
- PB Towage

Non-segment activities mainly comprise:
- Treasury
- PB RoRo, discontinued in September 2012

Underlying Profit
Includes:
- Segment results
- Treasury results
- Discontinued operations
- Indirect general and administrative expenses

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

Page 80
Financial Statements Note 4
Segment Information

Page 83
Financial Statements Note 5
General and administrative expenses and other expenses

Consolidated Balance Sheet

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

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

Page 82
Financial Statements Note 4(b)
Detailed balance sheet segment information

Approved by the Board of Directors on 26 February 2015

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Balance Sheet of the Company

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

Approved by the Board of Directors on 26 February 2015

Mats H. Berglund
Director

Andrew T. Broomhead
Director

Consolidated Income Statement

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

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

Page 80
Financial Statements Note 4(a)
Detailed income statement segment information

Consolidated Statement of Comprehensive Income

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

Consolidated Statement of Changes in Equity

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

Consolidated Cash Flow Statement

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

Notes to the Financial Statements

1 INTRODUCTION

1.1 General information

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

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

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

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

Page 22-23
Business Review
Dry Bulk Market Review 2014

Page 125
Corporate Information
Registered Office Address

1.2 Presentation of the notes to the financial statements

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

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

Principal Accounting Policies

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

Critical Accounting Estimates and Judgements

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

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

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

2 BASIS OF PREPARATION

2.1 Objective and accounting standards

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

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

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

2.2 Impact of new accounting policies

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

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

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

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

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

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

2.3 Accounting policies navigator

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

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

Notes to the Financial Statements continued

2 BASIS OF PREPARATION (CONTINUED)

2.4 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

(c) Group companies

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

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

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

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

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

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

2.5 Provisions

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

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

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

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

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

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

4 SEGMENT INFORMATION

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

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

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

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

Accounting policy – Segment reporting

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

Accounting policy – Revenue recognition

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

(i) Freight and charter-hire

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

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

(ii) Other revenue

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

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

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

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

Notes to the Financial Statements continued

Page 24
Pacific Basin Dry Bulk
See details of our Pacific Basin Dry Bulk KPIs

4 SEGMENT INFORMATION (CONTINUED)

(a) Income statement segment information

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

Notes:

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

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

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

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

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

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

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

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

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

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

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

Notes to the Financial Statements continued

4 SEGMENT INFORMATION (CONTINUED)

(b) Balance sheet segment information

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

- *Vessels delivered & under construction*
- *Goodwill*

- *Harbour towage receivables*

- *Properties*

- *Group unallocated cash*
- *RoRo receivables*

- *Derivative assets*

- *Bunker tanker, N.Z.*

- *Bank loans*
- *Convertible bonds*
- *Finance lease liabilities*

- *Derivative liabilities*

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

5 EXPENSES BY NATURE

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

Total administrative expenses

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

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

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

Operating lease expenses

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

Notes to the Financial Statements continued

5 EXPENSES BY NATURE (CONTINUED)

Accounting policy – Impairment

Impairment of investments and non-financial assets

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

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

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

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

Impairment of available-for-sale financial assets

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

Impairment of trade and other receivables

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

6 PROPERTY, PLANT AND EQUIPMENT

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

Estimated useful lives for the year ended 2014 and 2013	Dry bulk vessels: 25 years Towage vessels: 30 years Vessel component costs: estimated period to the next drydocking	Vessels under construction: N/A	50 years	4 to 5 years or the remaining lease period if shorter	3 to 5 years	4 to 5 years

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

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

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

(b) Vessels and vessel component costs include:

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

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

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

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

Accounting policies – Property, plant and equipment

Please refer to Note 5 for the accounting policy on impairment and Note 23(b) for that on finance leased fixed assets.

Vessels and vessel component costs

Vessels are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of vessels.

Vessel component costs include the cost of major components which are usually replaced or renewed at drydockings. The assets are stated at cost less accumulated depreciation and accumulated impairment losses. The Group subsequently capitalises drydocking costs as they are incurred.

Vessels under construction

Vessels under construction are stated at cost and are not subject to depreciation. All direct costs relating to the construction of vessels, including borrowing costs (see below) during the construction period, are capitalised as cost of vessels. When the assets concerned are brought into use, the costs are transferred to vessels and vessel component costs and depreciated in accordance with the policy on depreciation.

Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

Other property, plant and equipment

Other property, plant and equipment, comprising buildings, leasehold improvements, furniture, fixtures and equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses.

Subsequent expenditure

Subsequent expenditure is either included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will accrue to the Group and such expenditure can be measured reliably. The carrying amount of a replaced part is written off. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

Depreciation

Depreciation of property, plant and equipment is calculated using straight-line method to allocate their cost to their residual values over their remaining estimated useful lives.

Residual values and useful lives

The residual values of the Group's assets are defined as the estimated amounts that the Group would obtain from disposal of the assets, after deducting the estimated costs of disposals, as if the assets were already of the age and in the conditions expected at the end of their useful lives.

Useful lives of the Group's vessels and vessel component costs are defined as the period over which they are expected to be available for use by the Group.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Gains or losses on disposal

Gains or losses on disposal are determined by comparing the proceeds with the carrying amounts and are recognised in the income statement.

Notes to the Financial Statements continued

6 PROPERTY, PLANT AND EQUIPMENT (CONTINUED)

Critical accounting estimates and judgements

Residual values of property, plant and equipment

The Group estimates residual values of its vessels by reference to the lightweight tonnes of the vessels and the average demolition steel price of similar vessels in the Far East market and Indian Sub-Continent market.

- Sensitivity analysis:

With all other variables held constant, if the residual value increases/decreases by 10% from management estimates, the depreciation expense would decrease/increase by US$2.6 million in the next year.

Useful lives of vessels and vessel component costs

The Group estimates the useful life of its vessels with reference to the average historical useful life of similar vessels, their expected usage, expected repair and maintenance programme, and technical or commercial obsolescence arising from changes or improvements in the shipping market.

The Group estimates the useful life of its vessel component costs by reference to the average historical periods between drydocking cycles of vessels of similar age, and the expected usage of the vessel until its next drydock.

- Sensitivity analysis:

With all other variables held constant, if the useful lives increase/decrease by 3 years from management estimates, the depreciation expense would decrease by US$15.3 million or increase by US$8.8 million in the next year.

Impairment of vessels and vessels under construction

The Group tests whether the carrying values of vessels and vessels under construction have suffered any impairment in accordance with the accounting policy on impairment of investments and non-financial assets (Note 5). In assessing the indicators of potential impairment, internal and external sources of information such as reported sale and purchase prices, market demand and general market conditions are considered. In assessing the fair market value and value-in-use, the information above as well as market valuations from leading, independent and internationally recognised shipbroking companies are considered.

The vessels under Pacific Basin Dry Bulk and PB Towage are considered as two separate cash-generating units (CGUs). Vessels under the same CGU are operated on a portfolio basis and are interchangeable.

Pacific Basin Dry Bulk

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

For the 2014 PB Pacific Basin Dry Bulk value-in-use assessment, the applicable discount rate is 6.4% (2013: nil).

- Sensitivity analysis:

With all other variables held constant, increasing the discount rates of Pacific Basin Dry Bulk by 1% from the original estimate will not give rise to any impairment.

PB Towage

The recoverable amount of the PB Towage CGU calculated as the fair value less transaction costs, is estimated by independent valuer. The fair value assumes a basis of a willing buyer and willing seller under general market conditions and it is considered a Level 3 valuation in accordance with HKFRS 13. Please refer to Note 13 Fair value levels for the definitions of different levels.

7 INVESTMENT PROPERTIES

	Group	
US$'000	**2014**	2013
At 1 January	**2,675**	2,675
Depreciation	**(67)**	(67)
Exchange difference	**(3)**	67
At 31 December	**2,605**	2,675
Estimated useful lives	**45 years**	45 years

The investment properties were valued at 31 December 2014 by an independent qualified valuer on the basis of market value. The fair value of the investment properties was approximately US$4,286,000 (2013: US$4,310,000).

Accounting policy

Investment properties, comprising mainly buildings, are held for a combination of rental yields and capital appreciation. Investment properties are stated initially at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate their costs to their residual values over their estimated useful lives. The residual values and useful lives of investment properties are reviewed, and adjusted if appropriate, at each balance sheet date.

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

8 LAND USE RIGHTS

The Group's interest in land use rights represents prepaid operating lease payments in the PRC with lease periods between 10 to 50 years. The land use rights relate to "Buildings" in Note 6 & "Investment Properties" in Note 7.

	Group	
US$'000	2014	2013
At 1 January	**2,971**	3,767
Amortisation	**(74)**	(113)
Exchange difference	**(3)**	82
Disposal	**–**	(765)
At 31 December	**2,894**	2,971

Accounting policy

The upfront prepayments made for land use rights are expensed in the income statement on a straight line basis over the period of the lease or, when there is impairment, are recognised in the income statement immediately.

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

9 GOODWILL

	Group	
US$'000	2014	2013
At 1 January/31 December	**25,256**	25,256

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Accounting policy

Goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold. It is tested annually for impairment in accordance with the accounting policy on impairment in Note 5. Impairment losses on goodwill are not reversible.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of the CGU containing the goodwill is compared to the recoverable amount, which is the higher of value-in-use and the fair value less costs of disposal. Any impairment is recognised immediately as an expense and is not subsequently reversed.

Critical accounting and estimates judgements – Impairment of goodwill

The recoverable amount of Pacific Basin Dry Bulk to which the goodwill relates has been determined based on a value-in-use calculation over its useful life. The calculation is based on a one-year budget and a further four-years outlook. Key assumptions were based on past performance, management's expectations on market development and general inflation. Cash flows beyond the fifth year are extrapolated assuming zero growth and no material change in the existing scope of business, business environment and market conditions. The discount rate applied to the cash flow projections is 6.4% (2013: 7.4%) reflecting the Group's cost of capital.

Based on the assessment performed, no impairment provision against the carrying value of goodwill is considered necessary.

With all other variables held constant, increasing the discount rates by 1% from the original estimate will not give rise to any impairment.

10 SUBSIDIARIES

	Company	
US$'000	2014	2013
Non-current assets		
Unlisted investments, at cost	**1,319,283**	828,853
Current assets		
Amounts due from subsidiaries	**138,445**	642,136
Current liabilities		
Amounts due to subsidiaries	**(14,769)**	(14,928)

The amounts due from and to subsidiaries are unsecured, non-interest bearing and repayable on demand.

The carrying values of amounts due from and to subsidiaries approximate their fair values due to the short-term maturities of these assets and liabilities.

Details of principal subsidiaries of the Group as at 31 December 2014 are set out in Note 38.

Notes to the Financial Statements continued

10 SUBSIDIARIES (CONTINUED)

Accounting policy – Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

The Group uses the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair value of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement. In each acquisition case, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of subsidiaries has been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investments. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

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

11 INTERESTS IN JOINT ARRANGEMENTS

(a) Joint ventures

	Group	
US$'000	**2014**	2013
Share of net assets	**(2,191)**	18,505
Goodwill	**–**	5,133
Equity loan to Seafuels (Note)	**2,873**	3,012
	682	26,650

Note: The equity loan is unsecured, non-interest bearing, and has no fixed repayment terms. The Group does not plan to request for the repayment in the foreseeable future.

The Group's effective share of assets and liabilities of Seafuels (2013: Seafuels and OMSA) is set out below:

	Group	
US$'000	**2014**	2013
Assets		
Non-current assets	**3,160**	10,444
Current assets	**1,004**	38,590
	4,164	49,034
Liabilities		
Non-current liabilities	**(2,916)**	(11,834)
Current liabilities	**(3,439)**	(18,695)
	(6,355)	(30,529)
Net (liabilities)/assets	**(2,191)**	18,505

The Group disposed all its interest in the joint venture, Offshore Marine Services Alliance Pty Ltd ("OMSA") during the year and resulted in loss of US$2.0 million.

The Group's effective share of revenue and expenses of the joint ventures, mainly contributed by OMSA, and the impairment charge during the year are set out below:

US$'000	**2014**	2013
Revenue	**101,211**	146,276
Expenses	**(99,329)**	(141,248)
Share of results	**1,882**	5,028
Impairment	**(10,075)**	–
	(8,193)	5,028

There are no contingent liabilities relating to the Group's interests in the joint venture, and there are no contingent liabilities or commitments of the joint venture itself.

Accounting policy – Joint ventures

A joint ventures is a contractual arrangement whereby the Group and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

Interests in joint ventures are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's interests in joint ventures include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its joint ventures' post-acquisition profits or losses is recognised in the consolidated income statement and its share of post-acquisition reserves is recognised in other comprehensive income based on the relevant profit sharing ratios.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the joint ventures that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the joint venture that results from the purchase of assets by the Group from the joint venture until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. The financial information of joint ventures has been adjusted where necessary to ensure consistency with the policies adopted by the Group.

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

Details of the joint venture of the Group held indirectly by the Company at 31 December 2014 is as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
PB Towage:				
Seafuels Limited ("Seafuels")	New Zealand	NZD100	50%	Bunker tanker owning and chartering

(b) Joint operation

In 2014, the Group had a contractual arrangement with a third party to share equally the operating result associated with the chartering of a vessel (joint operation). The amounts of income and expenses recognised in respect of the Group's interest in the joint operation are as follow:

	Group	
US$'000	**2014**	2013
Charter-hire income included in revenue	**4,454**	4,593
Charter-hire expenses included in direct costs	**(3,284)**	(3,384)
	1,170	1,209

Accounting policy – Joint operation

A joint operation is a contractual arrangement whereby the Group and other parties combine their operations, resources and expertise to undertake an economic activity in which each party takes a share of the revenue and costs in the economic activity, such a share being determined in accordance with the contractual arrangement.

The assets that the Group controls and liabilities that the Group incurs in relation to the joint operation are recognised in the consolidated balance sheet on an accrual basis and classified according to the nature of the item. The expenses that the Group incurs and its share of income that it earns from the joint operations are included in the consolidated income statement.

Notes to the Financial Statements continued

12 INVESTMENTS IN ASSOCIATES

	Group	
US$'000	2014	2013
Share of net assets	–	1,332

An analysis of the Group's effective share of assets, liabilities, revenue and expenses of the associates is set out below:

	Group	
US$'000	2014	2013
Assets		
Non-current assets	3,834	4,478
Current assets	1,567	351
	5,401	4,829
Liabilities		
Non-current liabilities	(1,935)	(1,933)
Current liabilities	(3,466)	(1,564)
	(5,401)	(3,497)
Net assets	–	1,332

	2014	2013
Revenue	–	–
Expenses	–	–
Share of results	–	–
Impairment (charge)/write-back	(1,500)	1,542
	(1,500)	1,542

Accounting policy – Associates

An associate is an entity over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

Investments in associates are accounted for in the consolidated financial statements using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in other comprehensive income based on the relevant profit sharing ratios. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The financial information of the associates has been adjusted where necessary to ensure consistency with the policies adopted by the Group.

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

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group					
	2014			2013		
US$'000	Level 1	Level 3	Total	Level 1	Level 3	Total
Listed equity securities (a)	3,597	–	3,597	4,365	–	4,365
Unlisted equity securities (b)	–	529	529	–	529	529
	3,597	529	4,126	4,365	529	4,894

(a) Listed equity securities represent the Group's investment in Greka Drilling Limited, a company listed on the London AIM market.

(b) Unlisted equity securities represent the Group's investment in an unlisted renewable energy equity fund.

Available-for-sale financial assets have been analysed by valuation method as above and the levels are defined as follows:

Fair value levels

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices).
- Level 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

Our unlisted equity securities are Level 3 financial instruments and had no changes during the year. Their fair values are determined with reference to their net asset values.

Accounting policy – Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories under financial assets. They are included in non-current assets unless management intends to dispose of them within twelve months from the balance sheet date.

Assets in this category are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised in other comprehensive income.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are released to the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other substantially similar instruments, and discounted cash flow analysis.

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

Notes to the Financial Statements *continued*

14 DERIVATIVE ASSETS AND LIABILITIES

The Group is exposed to fluctuations in freight rates, bunker prices, interest rates and currency exchange rates. The Group manages these exposures by way of:

- forward freight agreements;
- bunker swap contracts;
- interest rate swap contracts; and
- forward foreign exchange contracts.

Amongst the derivative assets and liabilities held by the Group, the fair values of forward foreign exchange contracts, interest rate swap contracts and bunker swap contracts are quoted by dealers at the balance sheet date. The forward freight agreements are traded through a clearing house and its fair value is determined using forward freight rates at the balance sheet date.

Derivative assets and liabilities have been analysed by valuation method. Please refer to Note 13 Fair value levels for the definitions of different levels.

	Group					
	2014			2013		
US$'000	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative assets						
Cash flow hedges						
Forward foreign exchange contracts (a(i))	–	3,513	3,513	–	12,638	12,638
Interest rate swap contracts (d(i))	–	–	–	–	177	177
Derivative assets that do not qualify for hedge accounting						
Forward foreign exchange contracts (a(ii))	–	154	154	–	–	–
Bunker swap contracts (b)	–	46	46	–	1,386	1,386
Forward freight agreements (c)	3	–	3	1,212	–	1,212
Total	3	3,713	3,716	1,212	14,201	15,413
Less: non-current portion of						
Forward foreign exchange contracts (a(i))	–	–	–	–	(12,638)	(12,638)
Interest rate swap contracts (d(i))	–	–	–	–	(177)	(177)
Bunker swap contracts (b)	–	(46)	(46)	–	(360)	(360)
Non-current portion	–	(46)	(46)	–	(13,175)	(13,175)
Current portion	3	3,667	3,670	1,212	1,026	2,238
Derivative liabilities						
Cash flow hedges						
Forward foreign exchange contracts (a(i))	–	6,799	6,799	–	8,954	8,954
Interest rate swap contracts (d(i))	–	4,676	4,676	–	6,508	6,508
Derivative liabilities that do not qualify for hedge accounting						
Forward foreign exchange contracts (a(ii))	–	240	240	–	–	–
Bunker swap contracts (b)	–	30,624	30,624	–	1,275	1,275
Forward freight agreements (c)	237	–	237	1,666	–	1,666
Interest rate swap contracts (d(ii))	–	3,274	3,274	–	4,956	4,956
Total	237	45,613	45,850	1,666	21,693	23,359
Less: non-current portion of						
Forward foreign exchange contracts (a(i))	–	(6,799)	(6,799)	–	(6,772)	(6,772)
Interest rate swap contracts (d(i))	–	(4,161)	(4,161)	–	(6,501)	(6,501)
Interest rate swap contracts (d(ii))	–	(3,274)	(3,274)	–	(4,955)	(4,955)
Bunker swap contracts (b)	–	(8,092)	(8,092)	–	(551)	(551)
Non-current portion	–	(22,326)	(22,326)	–	(18,779)	(18,779)
Current portion	237	23,287	23,524	1,666	2,914	4,580

(a) Forward foreign exchange contracts

The functional currency of most of the Group's operating companies is United States Dollar ("USD") as the majority of our transactions are denominated in this currency. Historically, a major part of our exchange rate fluctuations risk arose from the purchase of vessels denominated in non-USD currency. However this risk has significantly reduced as most of our vessel purchases are denominated in USD.

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

The Group has long-term bank borrowings denominated in Danish Kroner ("DKK") with maturity in August 2023. To hedge against the potential fluctuations in foreign exchange, the Group entered into forward foreign exchange contracts with terms that match the repayment schedules of such long-term bank borrowings. These forward foreign exchange contracts qualify for hedge accounting as cash flow hedges.

At 31 December 2014, the Group had outstanding forward foreign exchange contracts with banks to buy approximately DKK 1,134.1 million (2013: DKK 1,290.3 million) and simultaneously sell approximately US$204.3 million (2013: US$233.0 million), which expire through August 2023.

At 31 December 2014, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$64.5 million (2013: US$129.1 million) and simultaneously sell approximately EUR 50.0 million (2013: EUR 100.0 million) for the sale proceeds of our two (2013: four) RoRo vessels that are denominated in Euros. These contracts expire through December 2015.

(ii) Forward foreign exchange contracts that do not qualify for hedge accounting

At 31 December 2014, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$46.3 million (2013: Nil) and simultaneously sell approximately AUD56.9 million (2013: Nil) for our other receivables that were denominated in Australian Dollars. These contracts expired through February 2015.

- *Sensitivity analysis:*

With all other variables held constant, if the currencies of non- functional currency items had weakened/strengthened by 3% against United States Dollars, the Group's profit after tax and equity would have been decreased/increased by US$0.2 million (2013: US$0.6 million) mainly as a result of translation of cash and deposits denominated in Australian Dollars.

(b) Bunker swap contracts

Bunker swap contracts that do not qualify for hedge accounting

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

At 31 December 2014, the Group had outstanding bunker swap contracts to buy approximately 180,900 (2013: 171,600) metric tonnes of bunkers. These contracts expire through December 2021 (2013: December 2018).

- *Sensitivity analysis:*

With all other variables held constant, if the average forward bunker rate on the bunker swap contracts held by the Group at the balance sheet date had been 10% higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$5.9 million (2013: US$10.2 million). Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which is expected to offset such increase/decrease of the Group's profit after tax and equity in future periods.

(c) Forward freight agreements

Forward freight agreements that do not qualify for hedge accounting

The Group enters into forward freight agreements as a method of managing its exposure to both its physical tonnage and cargo with regard to its Handysize and Handymax vessels.

At 31 December 2014, the Group had outstanding forward freight agreements as follows:

Contract Type	Index[1]	Quantity (days)	Contract Daily Price (US$)	Expiry through
2014				
Buy	**BHSI**	**135**	**8,000**	**March 2015**
Buy	**BSI**	**45**	**10,500**	**March 2015**
Sell	**BSI**	**15**	**9,100**	**January 2015**
2013				
Buy	BHSI	360	8,750	December 2014
Sell	BHSI	120	8,500 to 8,550	March 2014
Buy	BSI	420	9,900 to 12,300	December 2014
Sell	BSI	810	8,500 to 12,750	December 2014

1 "BSI" represents "Baltic Supramax Index" and "BHSI" represents "Baltic Handysize Index".

- *Sensitivity analysis:*

With all other variables held constant, if the average forward freight rate on FFA contracts held by the Group at the balance sheet date had been 20% higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$0.2 million (2013: approximately US$0.5 million). Future movements in charter rates will be reflected in the eventual operating revenue derived from the vessels, which would offset such increase/decrease of the Group's profit after tax and equity.

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

(d) Interest rate swap contracts

Certain bank borrowings are subject to floating interest rates, which can be volatile, but the Group manages these exposures by way of entering into interest rate swap contracts.

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

Effective date	Notional amount	Swap details	Expiry
For 2014 & 2013			
30 December 2013 & 21 January 2014	US$178 million on amortising basis	3-month floating rate LIBOR swapped to fixed rates of approximately 1.9% to 2.1% per annum	Contracts expire through December 2021
2 January 2007	US$20 million	6-month floating rate LIBOR swapped to a fixed rate of approximately 5.6% per annum	Contracts expire through December 2016
31 March 2009	US$100 million	3-month floating rate LIBOR swapped to fixed rates of approximately 2.9% to 3.0% per annum	Contracts expire through March 2016
For 2013			
28 March 2013 & 30 April 2013	A$5.4 million	3-month floating rate BBSW swapped to a fixed rate of approximately 3.2% per annum	Contracts expired through April 2014

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

Starting from 2 January 2007, a notional amount of US$40 million with the 6-month floating rate LIBOR swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month floating rate LIBOR remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6-month fixing period when the prevailing 6-month floating rate LIBOR is above 6.0% and reverts back to the fixed rate should the 6-month floating rate LIBOR subsequently drop below 6.0%.

This contract expires in January 2017.

- *Sensitivity analysis:*

With all other variables held constant, if the average interest rate on net cash balance subject to floating interest rates, which includes cash and deposits net of unhedged bank loans, held by the Group at the balance sheet date had been 50 basis point higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$1.2 million (2013: US$1.9 million).

(e) Analysis of derivative income and expense

During the year ended 31 December 2014, the Group recognised net derivative expense of US$50.2 million, as follows:

US$ Million	Realised	Unrealised	**2014**	2013
Income				
Forward freight agreements	2.5	1.7	**4.2**	2.5
Bunker swap contracts	0.8	0.5	**1.3**	4.4
Interest rate swap contracts	–	1.7	**1.7**	2.0
Forward foreign exchange contracts	–	0.1	**0.1**	0.5
	3.3	4.0	**7.3**	9.4
Expenses				
Forward freight agreements	(6.4)	(1.5)	**(7.9)**	(3.7)
Bunker swap contracts	(9.6)	(31.2)	**(40.8)**	(4.7)
Interest rate swap contracts	(8.6)	–	**(8.6)**	(5.8)
Forward foreign exchange contracts	–	(0.2)	**(0.2)**	–
	(24.6)	(32.9)	**(57.5)**	(14.2)
Net				
Forward freight agreements	(3.9)	0.2	**(3.7)**	(1.2)
Bunker swap contracts	(8.8)	(30.7)	**(39.5)**	(0.3)
Interest rate swap contracts	(8.6)	1.7	**(6.9)**	(3.8)
Forward foreign exchange contracts	–	(0.1)	**(0.1)**	0.5
	(21.3)	(28.9)	**(50.2)**	(4.8)

Presentation in the Segment Information:

Revenue

Bunkers & port disbursements

Cost of services
Other income/Other expenses

Finance costs

General and administration

Profit for the year

Presentation in the Financial Statements:

Revenue
Bunkers & port disbursements
Cost of services

Other income/Other expenses

Finance costs

General and administration

Profit for the year

- *Cash settlement of contracts completed in the year*
- *Included in segment results*

- *Contracts to be settled in future years*
- *Accounting reversal of earlier year contracts now completed*
- *Not part of segment results*

The unrealised bunker MTM charge will reverse upon the maturity of the underlying swap contracts. If bunker prices remained at the 31 December 2014 level the reversal would be US$22.5 million in 2015.

The application of HKAS 39 "Financial Instruments: Recognition and Measurement" has the effect of shifting to this year the estimated results of these derivative contracts that expire in future periods. In 2014 this created a net unrealised non-cash expense of US$28.9 million (2013: benefit of US$2.3 million). The cash flows of these contracts will occur in future reporting years.

Notes to the Financial Statements continued

14 DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

Accounting policy – Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Derivatives are classified as current and non-current assets according to their respective settlement dates.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the other income or other expenses in the period in which they arise.

Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

In the cash flow statement, financial assets held for trading are presented within "operating activities" as part of changes in working capital.

Derivative financial instruments and hedging activities

The method of recognising the resulting gain or loss arising from changes in fair value for derivative financial instruments depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

The Group documents at the inception of the transaction the relationship between the hedging instruments and the hedged items, as well as its risk management objectives and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at the hedge inception and on an ongoing basis, of whether the derivatives that are used in the hedging transactions are highly effective in offsetting the changes in fair values or cash flows of the hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months after the balance sheet date. A trading derivative is classified as a current asset or liability.

(i) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in other comprehensive income. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other income and expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in depreciation in the case of property, plant and equipment.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recycled when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was recorded in equity is immediately transferred to the income statement.

(ii) Derivatives not qualifying for hedge accounting

Derivative instruments that do not qualify for hedge accounting are accounted for as financial assets and liabilities at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

Bunker swap contracts and forward freight agreements do not qualify for hedge accounting mainly because the contract periods, which are in calendar months, do not coincide with the periods of the physical contracts. The terms of one of the interest rate swap contracts and certain foreign forward exchange contracts also did not qualify for hedge accounting.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

15 TRADE AND OTHER RECEIVABLES

	Group	
US$'000	2014	2013
Non-current receivables		
Prepayments	8,936	–
Other receivables from disposal of RoRos (a)	–	65,975
Total	8,936	65,975
Current receivables		
Trade receivables – gross	45,395	46,949
Less: provision for impairment	(1,935)	(2,286)
Trade receivables – net (c)	43,460	44,663
Other receivables from disposal of RoRos (a)	58,049	34,932
Other receivables from disposal of harbour towage business (b)	57,839	–
Other receivables from disposal of OMSA JV	5,670	–
Other receivables	42,395	45,220
Prepayments	18,266	16,939
Amounts due from joint ventures	–	620
Total	225,679	142,374

Page 15
Strategy Delivery & Risks
Credit & counterparty risk

The carrying values of trade and other receivables approximate their fair values due to their short-term maturities.

Trade and other receivables are mainly denominated in United States Dollars apart from those mentioned in note (a) and (b).

Accounting policy – Loan receivables, trade and other receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Trade and other receivables in the balance sheet are classified as loans and receivables.

Loans and receivables are recognised initially at fair value, plus transaction costs incurred. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Trade receivables mainly represent freight and charter-hire receivables which are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment.

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

(a) Other receivables from disposal of RoRos

The net sale proceeds of US$58.0 million (2013: US$100.9 million) for the last two (2013: three) RoRo vessels will be settled by December 2015. These balances represent the fair value based on their cash flows discounted at a borrowing rate of 6%. The discount rate represents the Euro borrowing rate at inception including the appropriate credit spread.

The receivables are denominated in Euros which are hedged by forward foreign exchange contracts.

(b) Other receivables from disposal of harbour towage business

The receivables are denominated in Australian dollars which are hedged by forward foreign exchange contracts. The disposal has been completed subsequent to the year end and the receivables settled in February 2015.

(c) Trade receivables

At 31 December 2014, the ageing of net trade receivables based on invoice date is as follows:

	Group	
US$'000	2014	2013
< 30 days	30,446	27,500
31-60 days	5,543	6,029
61-90 days	3,192	3,888
> 90 days	4,279	7,246
	43,460	44,663

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

	Group	
US$'000	2014	2013
At 1 January	2,286	1,331
Provision for receivable impairment	2,664	2,704
Reversal of prior year overprovision	(1,187)	(1,174)
Total charge to income statement	1,477	1,530
Amount written off during the year	(1,828)	(575)
At 31 December	1,935	2,286

Credit policy

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

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of international customers.

As at 31 December 2014 and 2013, net trade receivables are all past due but not impaired as no customer is expected to have significant financial difficulty. All other items within trade and other receivables do not contain past due or impaired assets.

Notes to the Financial Statements continued

15 TRADE AND OTHER RECEIVABLES (CONTINUED)

(d) Finance lease receivables

During the year, the Group leased out 4 towage vessels under finance leases. Under the terms of leases, the charterer has the obligation to purchase these vessels at the end of lease period. However, the charterer has entered into receivership in later period and the charters were terminated. The vessels are derecognised as finance lease receivables and their values are reclassified to property, plant and equipment (Note 6).

16 CASH AND DEPOSITS

	Group	
US$'000	**2014**	2013
Cash at bank and on hand	**75,397**	90,637
Bank deposits	**288,028**	395,425
Total cash and deposits	**363,425**	486,062
Effective interest rate on bank deposits at year end	**1.24%**	1.41%
Average remaining maturity of bank deposits	**83 days**	74 days
Cash and cash equivalents	**256,731**	408,200
Term deposits	**105,000**	75,000
Cash and deposits	**361,731**	483,200
Restricted bank deposits included in non-current assets	**89**	1,269
Restricted bank deposits included in current assets (Note)	**1,605**	1,593
Total cash and deposits	**363,425**	486,062

Note: The balance mainly represented the collaterals held for a bank loan (Note 23(a)(iv)). Balances in 2013 were held as securities with banks in relation to certain performance guarantees.

As at 31 December 2014, the Company had cash at bank of US$29,000 (2013: US$23,000).

Cash and deposits are mainly denominated in United States Dollars and the carrying values approximate their fair values due to the short-term maturities of these assets.

Accounting policy – Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

Page 30
Funding
Cash flow and cash

17 OTHER NON-CURRENT ASSETS

	Group	
US$'000	**2014**	2013
Prepayments for acquisition of vessels	**–**	5,917

Other non-current assets are denominated in United States Dollars. Please refer to Note 5 for the accounting policy on impairment.

18 INVENTORIES

	Group	
US$'000	**2014**	2013
Bunkers	**69,774**	95,817
Lubricating oil	**9,750**	8,189
	79,524	104,006

Accounting policy

Inventories are stated at the lower of cost and net realisable value, as estimated by the management. Costs are calculated on a first-in first-out basis.

19 ASSETS HELD FOR SALE

The Group entered into agreements with a third party in 2014 to dispose of two harbour towage vessels. The transactions have been completed subsequent to the year end producing no material gain or loss. The carrying amounts of the two vessels of US$5,749,000 represent the estimated fair value less costs to sell and reclassified from property, plant and equipment (Note 6) accordingly.

Accounting policy – Assets held for sale and discontinued operations

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

A discontinued operation is a component of the Group's business which represents a separate operations, or it is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale. The operations and cash flows of a discontinued operation should be clearly distinguished from the rest of the Group.

When an operation is classified as discontinued, a single amount is presented in the income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets constituting the discontinued operation.

20 TRADE AND OTHER PAYABLES

	Group	
US$'000	**2014**	2013
Trade payables	**54,458**	76,094
Accruals and other payables	**65,683**	55,839
Receipts in advance	**37,557**	34,542
	157,698	166,475

At 31 December 2014, the ageing of trade payables based on due date is as follows:

	Group	
US$'000	**2014**	2013
< 30 days	**48,247**	70,982
31-60 days	**987**	1,072
61-90 days	**1,279**	157
> 90 days	**3,945**	3,883
	54,458	76,094

The carrying values of trade and other payables approximate their fair values due to the short-term maturities of these liabilities.

Trade and other payables are mainly denominated in United States Dollars.

Accounting policy – Trade payables

Trade payables mainly represent freight and charter-hire payables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

21 ASSETS AND LIABILITIES OF DISCONTINUED OPERATIONS CLASSIFIED AS HELD FOR SALE

In September 2012, the Group entered into an agreement to sell six RoRo vessels. The assets and liabilities related to the RoRo business were presented as "held for sale". The RoRo fleet was considered fully disposed in April 2014 when the last RoRo vessel commenced its bareboat charter.

(a) Assets and liabilities of discontinued operations

US$'000	**2014**	2013
Assets held for sale (Note)	–	31,166
Inventory	–	31
Other current assets	–	427
Assets of discontinued operations classified as held for sale	–	31,624
Trade and other payable	–	(3,446)
Other current liabilities	–	(6)
Liabilities of discontinued operations classified as held for sale	–	(3,452)
Net assets	–	28,172

Note: 2013 figure relates to one RoRo vessel which commenced its bareboat charter to the purchaser in 2014.

(b) Analysis of the result of the discontinued operations

US$'000	**2014**	2013
Operating results		
Revenue	**1,671**	6,577
Cost of services	**(1,867)**	(7,069)
Gross profit	**(196)**	(492)
Tax	**(4)**	(8)
	(200)	(500)
Exchange loss	**(5,022)**	(7,835)
	(5,222)	(8,335)

(c) Cumulative expense recognised in other comprehensive income relating to discontinued operations

US$'000	**2014**	2013
Release of exchange reserve	**(5,022)**	(8,331)

(d) The net cash flows attributable to the discontinued operations

US$'000	**2014**	2013
Operating cash flows	**(139)**	1,652

Please refer to Note 19 for the accounting policy on discontinued operations classified as held for sale.

Notes to the Financial Statements continued

22 PROVISION FOR ONEROUS CONTRACTS

	Group	
US$'000	2014	2013
At 1 January	656	–
Exchange differences	6	–
Utilised during the year (Note 26)	(662)	–
Charge for the year	100,906	656
At 31 December	100,906	656
Analysis of provisions		
Current	21,324	656
Non-current	79,582	–
	100,906	656

Accounting policy – Provision for onerous contracts

A provision for onerous contracts is recognised where the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them.

Critical accounting estimates and judgements – Provision for onerous contracts

The Group estimates the provision for its non-cancellable operating chartered-in contracts in relation to the Group's chartered-in vessels on a fleet basis for each type of vessel by calculating the difference between the total charter revenue and freight expected to be earned and the total value of future charter payments the Group is obligated to make for the remaining term of the chartered-in contracts.

The expected charter revenue and freight is derived from the aggregate of (a) the amount of revenue cover provided by existing contracts of affreightment, and (b) management estimates on the uncovered period by reference to current physical market rates, current trades of forward freight agreements and other relevant market information at the reporting date.

With all other variables held constant, if the expected freight rates for the uncovered chartered-in contracts increase/decrease by 4% from management estimates over the next 5 years, the provision for onerous contracts would decrease/increase by US$15.0 million.

23 LONG-TERM BORROWINGS

	Group	
US$'000	2014	2013
Non-current		
Secured bank loans (a)	507,223	582,968
Finance lease liabilities (b)	–	18,289
Convertible bonds (c)	313,422	107,403
	820,645	708,660
Current		
Secured bank loans (a)	160,810	107,438
Finance lease liabilities (b)	18,289	4,680
Convertible bonds (c)	–	216,447
	179,099	328,565
Total long-term borrowings	999,744	1,037,225

The fair value of long-term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

Long-term borrowings are mainly denominated in United States Dollars.

Accounting policy – Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liabilities for at least twelve months after the balance sheet date.

(a) Secured bank loans

The bank loans as at 31 December 2014 were secured, inter alia, by the following:

(i) Mortgages over certain owned vessels with net book values of US$1,246,087,000 (2013: US$1,225,336,000) (Note 6(c));

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

(iii) cash and deposit of US$1,600,000 (2013: nil) (Note 16).

The Group's bank loans are repayable as follows:

	Group	
US$'000	2014	2013
Within one year	160,810	107,438
In the second year	79,004	165,475
In the third to fifth year	191,048	182,819
After the fifth year	237,171	234,674
	668,033	690,406
Average effective interest rate of bank loans (before hedging)	2.5%	2.6%

(b) Finance lease liabilities

At 31 December 2013 and 2014, the Group leased three vessels under finance leases. Under the terms of the leases, the Group has options to purchase these vessels at any time throughout the charter periods. Leases liabilities are effectively secured as the right to the leased vessels revert to the lessors in event of default.

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2014 are as follows:

	Group	
US$'000	2014	2013
Gross liabilities under finance leases Within one year	19,318	6,091
In the second year	–	19,318
	19,318	25,409
Less: future finance charges on finance leases	(1,029)	(2,440)
	18,289	22,969
Average effective interest rates on finance lease liabilities	6.6%	6.6%

	Group	
US$'000	2014	2013
Net liabilities under finance leases Within one year	18,289	4,680
In the second year	–	18,289
	18,289	22,969
Fair value of the finance lease liabilities	18,735	23,931

Accounting policy – Finance lease: where the Group is the lessee

Leases of assets where the lessee has substantially all the risks and rewards of ownership of such assets are classified as finance leases.

Where the Group is the lessee, finance leased assets are capitalised at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The finance lease liabilities are included in current and non-current borrowings. The finance charges are expensed in the income statement over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

Notes to the Financial Statements continued

23 LONG-TERM BORROWINGS (CONTINUED)

(c) Convertible bonds

	Group			
	2014		2013	
US$'000	Face value	Liability component	Face value	Liability component
1.75% coupon due 2016	**209,600**	**202,845**	230,000	216,447
1.875% coupon due 2018	**123,800**	**110,577**	123,800	107,403
Total	**333,400**	**313,422**	353,800	323,850

The carrying value of convertible bonds approximate their fair values.

Key items	1.75% coupon due 2016	1.875% coupon due 2018
Issue size	US$209.6 million (US$230.0 million originally)	US$123.8 million
Issue date	12 April 2010	22 October 2012
Maturity date	12 April 2016 (6 years from issue)	22 October 2018 (6 years from issue)
Coupon – cash cost	1.75% p.a. payable semi-annually in arrears on 12 April and 12 October	1.875% p.a. payable semi-annually in arrears on 22 April and 22 October
Effective interest rate	4.70% charged to income statement	5.17% charged to income statement
Redemption Price	100%	100%
Conversion Price converting bonds into shares (Note)	HK$7.10 (with effect from 23 April 2014)	HK$4.84 (with effect from 23 April 2014)
Conversion at bondholders' options	After 11 January 2014, conversion can take place at any time at no premium	Any time on or after 2 December 2012
Bondholder put date and price for redemption at 100% of the principal amount	On 12 April 2014 (4 years from issue), certain bondholders exercised their right to require the Group to redeem all or some of their bonds resulting in US$20.4 million bonds being redeemed and cancelled on 14 April 2014. The remaining outstanding principal amount was reduced to US$209.6 million and there is no further bondholder put right.	On 22 October 2016 (4 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds. As this is an unconditional put option accounting standards require the Group to treat the convertible bonds as falling due on the put date.
Issuer call date and price for redemption at 100% of the principal amount, provided that the closing price of the Company's shares is at least at a 30% premium to the conversion price then in effect for thirty consecutive trading days	After 12 April 2014, the Group may redeem the bonds in whole.	After 22 October 2016, the Group may redeem the bonds in whole.

Note: The conversion price is subject to an adjustment arising from the cash dividends paid by the Company according to a pre-determined adjustment factor. Such adjustment becomes effective on the first date on which the Shares are traded ex-dividend.

Accounting policy – Convertible bonds

Convertible bonds are accounted for as the aggregate of (i) a liability component and (ii) an equity component.

At initial recognition, the fair value of the liability component of the convertible bonds is determined using a market interest rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the conversion option as an equity component, recognised in other comprehensive income.

Transaction costs associated with the issuance of the convertible bonds are allocated to the liability and equity components in proportion to the allocation of proceeds. The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

24 SHARE CAPITAL

	2014 Number of shares	2014 US$'000	2013 Number of shares	2013 US$'000
Authorised	**3,600,000,000**	**360,000**	3,600,000,000	360,000
Issued and fully paid				
At 1 January	**1,934,457,119**	**193,237**	1,936,049,119	193,605
Shares purchased by trustee of the SAS (a)	**(5,486,000)**	**(3,483)**	(10,692,000)	(6,514)
Shares granted to employees in the form of restricted share awards (a)	**8,140,000**	**4,215**	11,392,000	6,584
Shares transferred back to trustee upon lapse of restricted share awards (a)	**(3,845,000)**	**(2,228)**	(2,292,000)	(438)
Shares issued upon exercise of share options (b)	**400,000**	**40**	–	–
At 31 December	**1,933,666,119**	**191,781**	1,934,457,119	193,237

The issued share capital of the Company as at 31 December 2014 was 1,936,977,119 shares (2013: 1,936,577,119 shares). The difference from the number of shares in the table above of 3,311,000 (2013: 2,120,000) represents shares held by the trustee in relation to restricted share awards, amounting to US$1,916,400 (2013: US$420,400) as a debit to share capital.

(a) Restricted share awards

Restricted share awards under the Company's 2013 Share Award Scheme ("SAS") and previous Long Term Incentive Scheme ("LTIS") were granted to Executive Directors and certain employees. The SAS and LTIS under HKFRS is regarded as a special purpose entity of the Company.

On the grant of the restricted share awards, the relevant number of shares is legally transferred or issued to the trustee who holds the shares for the benefit of the grantees. A grantee shall not be entitled to vote, to receive dividends (except where the Board grants dividend rights to the grantee at the Board's discretion) or to have any other rights of a shareholder in respect of the shares until vesting. If the shares lapse or are forfeited, they will be held by the trustee and can be utilised for future awards. Any dividends paid to the grantees in respect of those shares granted to them but prior to vesting are considered to be a cost of employment and charged directly to the income statement.

Movements of the number of unvested restricted share awards during the year are as follows:

000' shares	2014	2013
At 1 January	**27,810**	25,616
Granted	**8,140**	11,392
Vested	**(8,565)**	(6,906)
Lapsed	**(3,845)**	(2,292)
At 31 December	**23,540**	27,810

During the year, a total of 8,140,000 (2013: 11,392,000) restricted share awards were granted to certain employees. The market prices of the restricted share awards on the grant date represented the fair values of those shares.

Page 61
Report of the Directors
See History and Movement of Restricted Awards Granted

Notes to the Financial Statements continued

24 SHARE CAPITAL (CONTINUED)

(a) Restricted share awards (continued)

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

	2014		2013	
Sources of shares granted	Number of granted shares awards	Related movement US$'000	Number of granted shares awards	Related movement US$'000
Shares purchased by the trustee of the SAS on the Stock Exchange funded by the Company	**5,486,000**	**3,483**	10,692,000	6,514
Shares transferred from the trustee	**2,654,000**	**732**	700,000	70
	8,140,000	**4,215**	11,392,000	6,584

The vesting periods and grant dates of the unvested restricted share awards as at 31 December 2014 are as follows:

		Vesting periods		
Date of grant	Number of unvested share awards	14 July 2015	14 July 2016	14 July 2017
1 June 2012	7,824,000	7,824,000	–	–
28 September 2012	736,000	736,000	–	–
15 March 2013	8,320,000	417,000	7,903,000	–
5 May 2014	5,793,000	169,000	171,000	5,453,000
13 August 2014	867,000	178,000	178,000	511,000
	23,540,000	9,324,000	8,252,000	5,964,000

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or share options are shown in equity as a deduction from the proceeds.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax) is included in equity.

(b) Share options

55,500,000 share options under the LTIS were granted to Executive Directors and certain employees on 14 July 2004 at an exercise price of HK$2.5 per share. They were fully vested on 14 July 2007 and expired on 14 July 2014. At 31 December 2013, all of the 400,000 outstanding share options were exercisable and were exercised in 2014. The related weighted average exercise prices of the Company's shares at the time of exercise was HK$4.95 per share.

25 RESERVES

	Group									
	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2014	602,050	(56,606)	51,620	(5,728)	2,640	1,870	(11,371)	584,475	526,582	1,111,057
Loss attributable to shareholders	–	–	–	–	–	–	–	–	(284 964)	(284,964)
Cash flow hedges										
– fair value losses	–	–	–	–	(23,564)	–	–	(23,564)	–	(23,564)
– transferred to finance costs in income statement	–	–	–	–	8,485	–	–	8,485	–	8,485
Release of exchange reserve upon:										
– disposal of harbour towage business	–	–	–	–	–	–	9,312	9,312	–	9,312
– disposal of a RoRo vessel	–	–	–	–	–	–	5,022	5,022	–	5,022
– disposal of OMSA JV	–	–	–	–	–	–	4,374	4,374	–	4,374
– repayment of shareholder loans by subsidiaries	–	–	–	–	–	–	(1,015)	(1,015)	–	(1,015)
Dividends paid (Note 29)	–	–	–	–	–	–	–	–	(12,385)	(12,385)
Currency translation differences	–	–	–	–	–	–	(7,986)	(7,986)	–	(7,986)
Share-based compensation (see Remuneration Report)	–	–	–	5,311	–	–	–	5,311	–	5,311
Share awards granted (Note 24)	–	–	–	(4,215)	–	–	–	(4,215)	–	(4,215)
Share awards lapsed (Note 24)	–	–	–	2,228	–	–	–	2,228	–	2,228
Shares issued upon exercise of share options	126	–	–	(38)	–	–	–	88	–	88
Share awards fully vested	1,928	–	–	(1,931)	–	–	–	(3)	3	–
Derecognition of equity component upon exercise of CB put options	–	–	(2,865)	–	–	–	–	(2,865)	1,850	(1,015)
Fair value losses on available-for-sale financial assets	–	–	–	–	–	(768)	–	(768)	–	(768)
At 31 December 2014	604,104	(56,606)	48,755	(4,373)	(12,439)	1,102	(1,664)	578,879	231,086	809,965
Representing:										
2014 proposed final dividend									12,489	
Others									218,597	
Retained profits at 31 December 2014									231,086	

Notes to the Financial Statements continued

25 RESERVES (CONTINUED)

US$'000	Group: Other reserves: Share[(a)] premium	Merger[(b)] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2013	599,846	(56,606)	51,620	(3,107)	(9,055)	1,705	16,557	600,960	537,456	1,138,416
Currency translation differences	–	–	–	–	–	–	(31,113)	(31,113)	–	(31,113)
Dividends paid (Note 29)	–	–	–	–	–	–	–	–	(12,397)	(12,397)
Release of exchange reserve upon:										
– disposal of RoRo vessels	–	–	–	–	–	–	8,331	8,331	–	8,331
– repayment of shareholder loans by subsidiaries	–	–	–	–	–	–	(5,146)	(5,146)	–	(5,146)
Cash flow hedges										
– fair value gain	–	–	–	–	7,126	–	–	7,126	–	7,126
– transferred to finance costs in income statement	–	–	–	–	4,569	–	–	4,569	–	4,569
Share awards granted (Note 24)	–	–	–	(6,584)	–	–	–	(6,584)	–	(6,584)
Share-based compensation (see Remuneration Report)	–	–	–	5,729	–	–	–	5,729	–	5,729
Share awards lapsed (Note 24)	–	–	–	438	–	–	–	438	–	438
Share awards fully vested	2,204	–	–	(2,204)	–	–	–	–	–	–
Profit attributable to shareholders	–	–	–	–	–	–	–	–	1,523	1,523
Fair value gain on available-for-sale financial assets	–	–	–	–	–	165	–	165	–	165
At 31 December 2013	602,050	(56,606)	51,620	(5,728)	2,640	1,870	(11,371)	584,475	526,582	1,111,057

Representing:	
2013 final dividend	12,385
Others	514,197
Retained profits at 31 December 2013	526,582

(a) Share premium mainly represents the net share issuance proceeds in excess of the nominal value credited to share capital.

(b) Merger reserve represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the transfer of PB Vessels Holding Limited and its subsidiaries into the Company through an exchange of shares prior to the listing of the shares of the Company on the Stock Exchange in 2004.

US$'000	Company: Other reserves: Share premium	Staff benefits reserve	Subtotal	Retained profits	Total
At 1 January 2014	**602,050**	**(5,728)**	**596,322**	**666,548**	**1,262,870**
Dividends paid (Note 29)	–	–	–	(12,385)	(12,385)
Share-based compensation (see Remuneration Report)	–	5,311	5,311	–	5,311
Share awards granted (Note 24)	–	(4,215)	(4,215)	–	(4,215)
Share awards lapsed (Note 24)	–	2,228	2,228	–	2,228
Shares issued upon exercise of share options	126	(38)	88	–	88
Share awards fully vested	1,928	(1,931)	(3)	3	–
Loss attributable to shareholders	–	–	–	(2,960)	(2,960)
At 31 December 2014	**604,104**	**(4,373)**	**599,731**	**651,206**	**1,250,937**
Representing:					
2014 proposed final dividend				12,489	
Others				638,717	
Retained profits as at 31 December 2014				**651,206**	
At 1 January 2013	599,846	(3,107)	596,739	680,359	1,277,098
Loss attributable to shareholders	–	–	–	(1,414)	(1,414)
Share-based compensation (see Remuneration Report)	–	5,729	5,729	–	5,729
Share awards granted (Note 24)	–	(6,584)	(6,584)	–	(6,584)
Share awards lapsed (Note 24)	–	438	438	–	438
Share awards fully vested	2,204	(2,204)	–	–	–
Dividends paid (Note 29)	–	–	–	(12,397)	(12,397)
At 31 December 2013	602,050	(5,728)	596,322	666,548	1,262,870
Representing:					
2013 final dividend				12,385	
Others				654,163	
Retained profits as at 31 December 2013				666,548	

Loss attributable to shareholders of US$2,960,000 (2013: US$1,414,000) is dealt with in the financial statements of the Company.

26 OTHER INCOME AND GAINS

US$'000	2014	2013
Gains		
Gains on forward freight agreements (Note 14(e))	4,170	2,510
Gains on disposal of property, plant and equipment	362	525
Gains on disposal of subsidiaries	–	554
Utilisation of provision of onerous contracts (Note 22)	662	–
Exchange gains on repayment of shareholder loans by subsidiaries	1,015	5,146
	6,209	8,735

Notes to the Financial Statements continued

27 FINANCE INCOME AND COSTS

US$'000	2014	2013
Finance income		
Bank interest income	(4,014)	(7,109)
Other interest income	(6,149)	(7,353)
Finance lease interest income	(626)	(217)
Total finance income	(10,789)	(14,679)
Finance costs		
Borrowings wholly repayable within five years		
Interest on bank loans	4,485	4,951
Interest on convertible bonds	15,010	15,227
Interest on finance leases	1,411	5,830
Borrowings not wholly repayable within five years		
Interest on bank loans	14,821	9,692
Other finance charges (Note)	1,102	15,934
Net losses on interest rate swap contracts	6,881	3,793
	43,710	55,427
Less: amounts capitalised as PP&E (Note 6(e))	(158)	(3,305)
Total finance costs	43,552	52,122
Finance costs, net	32,763	37,443

Note: Other finance charges in 2013 included the expenses relating to the repayment of the finance lease liabilities upon the exercise of ten purchase options under finance leases amounting to US$15.3 million.

28 TAXATION

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

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

US$'000	2014	2013
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2013: 16.5%)	636	641
Overseas tax, provided at the rates of taxation prevailing in the countries	596	720
Adjustments in respect of prior year	(15)	(193)
Tax charges	1,217	1,168

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the countries in which the Group operates, as follows:

US$'000	2014	2013
(Loss)/profit before taxation	(278,525)	11,026
Add: share of profits less losses/impairment of joint ventures	8,193	(5,028)
Add: share of profits less losses/impairment of associates	1,500	(1,542)
	(268,832)	4,456
Tax calculated at applicable tax rates	(26,553)	63
Income not subject to taxation	(143,012)	(108,810)
Expenses not deductible for taxation purposes	170,797	107,739
Tax losses incurred for which no deferred income tax asset was recognised	–	2,369
Overprovision of prior year	(15)	(193)
Taxation charge	1,217	1,168
Weighted average applicable tax rate	9.9%	1.4%

The Group has not recognised deferred income tax assets of US$5,948,000 (2013: US$10,951,000) in respect of tax losses amounting to US$19,917,000 (2013: US$36,503,000). These tax losses relate to Towage business and have no expiry date.

Critical accounting estimates and judgements – Income taxes

The Group is subject to income taxes in certain jurisdictions. There are transactions entered into where the ultimate tax determination and tax classification may be uncertain. Significant judgement is required in determining the provision for income taxes. The current provision in the balance sheet for income tax of US$1,572,000 represents management's estimates of the most likely amount of tax expected to be paid to the taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income tax in the period in which such determination is made.

Accounting policy – Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, joint ventures and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Accounting policy – Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Deferred income tax is provided on temporary differences arising on investments in subsidiaries, joint ventures and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Notes to the Financial Statements continued

29 DIVIDENDS

	2014			2013		
	HK cents per share	US cents per share	US$'000	HK cents per share	US cents per share	US$'000
Proposed final dividend	5.0	0.6	12,489	5.0	0.6	12,490
Dividend paid during the year	5.0	0.6	12,385	5.0	0.6	12,397

The proposed final dividend is subject to the approval of the shareholders at the Annual General Meeting on 22 April 2015.

Accounting policy

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Directors, where appropriate.

The dividend declared after the year end is not reflected as a dividend payable in the financial statements of that year, but will be reflected as an appropriation of retained profits for the following year.

30 EARNINGS PER SHARE

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's SAS and LTIS and unvested restricted shares (Note 24(a)).

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's SAS and LTIS (Note 24(a)) but after adjusting for the number of potential dilutive ordinary shares from convertible bonds, share options (Note 24(b)) and unvested restricted shares where dilutive.

		Basic & Diluted EPS 2014	Basic EPS 2013	Diluted EPS 2013
(Loss)/profit from continuing operations	(US$'000)	(279,742)	9,858	9,858
Loss from discontinued operations	(US$'000)	(5,222)	(8,335)	(8,335)
(Loss)/profit attributable to shareholders	(US$'000)	(284,964)	1,523	1,523
Weighted average number of ordinary shares in issue	('000)	1,908,712	1,935,299	1,935,490
Earnings per share				
– continuing operations	(US cents)	(14.66)	0.51	0.51
– discontinued operations	(US cents)	(0.27)	(0.43)	(0.43)
	(US cents)	(14.93)	0.08	0.08
Equivalent to				
– continuing operations	(HK cents)	(113.66)	3.95	3.95
– discontinued operations	(HK cents)	(2.12)	(3.34)	(3.34)
	(HK cents)	(115.78)	0.61	0.61

Diluted earnings per share for the year ended 31 December 2014 is the same as the basic earnings per share since the potential ordinary shares from convertible bonds and unvested restricted shares have antidilutive effect.

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of (loss)/profit before taxation to cash generated from operations:

	Group	
US$'000	**2014**	2013
(Loss)/profit before taxation	**(283,743)**	2,699
Adjusted for:		
Assets and liabilities adjustments:		
Depreciation	**102,509**	82,680
Amortisation of land use rights	**74**	113
Provision for onerous contracts, net	**100,244**	656
Provision for impairment losses		
– Property, plant and equipment	**58,892**	–
– Trade receivables	**1,477**	1,530
Net unrealised losses/(gains) on derivative instruments not qualified as hedges, excluding interest rate swap contracts	**30,555**	(304)
Loss on disposal of harbour towage business (b)	**19,295**	–
Loss on disposal of OMSA JV (b)	**1,987**	–
Gains on disposal of property, plant and equipment	**(362)**	(525)
Gain on disposal of subsidiaries	**–**	(554)
Capital and funding adjustments:		
Share-based compensation	**5,311**	5,729
Results adjustments:		
Finance costs, net	**32,763**	37,443
Share of profits less losses/impairment of joint ventures	**8,193**	(5,016)
Share of profits less losses/impairment of associates	**1,500**	(1,542)
RoRo exchange loss	**5,022**	8,331
Exchange gain on repayment of shareholder loans by subsidiaries	**(1,015)**	(5,146)
Exchange differences	**(972)**	1,759
Profit before taxation before working capital changes	**81,730**	127,853
Decrease/(increase) in inventories	**23,961**	(24,798)
Increase in trade and other receivables	**(3,323)**	(14,814)
(Decrease)/increase in trade and other payables	**(7,222)**	11,352
Cash generated from operations	**95,146**	99,593

(b) Disposal of businesses

During 2014, the Group disposed its interest in harbour towage business and all its interest in a joint venture, OMSA. The effect of the disposals are as set out below:

US$'000	**Harbour towage**	OMSA JV
Net carrying values of business (i)	**(67,822)**	(7,027)
Considerations received	**–**	3,295
Considerations receivable	**57,839**	6,119
Exchange loss	**(9,312)**	(4,374)
Loss on disposal	**(19,295)**	(1,987)

(i) The net carrying value of harbour towage business disposed is as follow:

US$'000	**2014**
Property, plant and equipment	**61,549**
Inventories	**504**
Trade and other receivables	**7,006**
Trade and other payables	**(4,050)**
Cash and bank balances	**2,813**
	67,822

Notes to the Financial Statements continued

32 COMMITMENTS

(a) Capital commitments

US$'000	Group 2014	2013
Contracted but not provided for – vessel acquisitions and shipbuilding contracts	384,716	339,360
Authorised but not contracted for – vessel acquisitions and shipbuilding contracts	–	139,750
	384,716	479,110

Capital commitments for the Group that fall due in one year or less amounted to US$108.7 million (2013: US$114.6 million).

As at 31 December 2014 and 2013, the Company had no capital commitments.

Page 33 & 34
Vessel Commitments & Vessel Operating Lease Commitments

(b) Commitments under operating leases

Accounting policy – Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

Critical accounting estimates and judgements – Classification of leases

The Group classifies its leases into either finance leases or operating leases taking into account of the spirit, intention, and application of HKAS 17 "Leases".

Management assesses the classification of leases by taking into account the market conditions at the inception of the lease, the period of the lease and the probability of exercising purchase options, if any, attached to the lease. For those leases that would not transfer ownership of the assets to the Group at the end of the lease term, and that it is not reasonably certain that the purchase options, if any, attached to the arrangements would be exercised, they are being treated as operating leases.

(i) The Group as the lessee – payments

The Group had future aggregate minimum lease payments under non-cancellable operating leases as follows:

US$'000	Dry bulk vessels	Tugs	Vessels total	Land and buildings	Total
At 31 December 2014					
Within one year	**201,864**	**228**	**202,092**	**3,497**	**205,589**
In the second to fifth year	**504,564**	**–**	**504,564**	**6,392**	**510,956**
After the fifth year	**171,164**	**–**	**171,164**	**1,301**	**172,465**
	877,592	**228**	**877,820**	**11,190**	**889,010**
At 31 December 2013					
Within one year	161,211	7,170	168,381	4,467	172,848
In the second to fifth year	474,783	455	475,238	10,516	485,754
After the fifth year	210,459	–	210,459	1,707	212,166
	846,453	7,625	854,078	16,690	870,768

The Group's operating leases for dry bulk vessels have terms ranging from less than 1 year to 11 years. Certain of the leases have escalation clauses, renewal rights and purchase options.

Accounting policy – Operating leases: where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease periods.

(ii) The Group as the lessor – receipts

The Group had future aggregate minimum lease receipts under non-cancellable operating leases as follows:

US$'000	Dry bulk[(a)] vessels	Tugs	Total
At 31 December 2014			
Within one year	**24,388**	**4,311**	**28,699**
In the second to fifth year	**63,619**	**313**	**63,932**
After the fifth year	**55,507**	**–**	**55,507**
	143,514	**4,624**	**148,138**
At 31 December 2013			
Within one year	19,327	7,381	26,708
In the second to fifth year	63,619	2,594	66,213
After the fifth year	71,401	–	71,401
	154,347	9,975	164,322

(a) Operating lease commitments of the Group's minimum operating lease receipts for dry bulk vessels mainly include the commitments from two Post- Panamax vessels of US$135.0 million (2013: US$150.9 million).

The Group's operating leases have terms ranging from less than 1 year to 16 years.

Accounting policy – Operating leases: where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet and, where applicable, are depreciated in accordance with the Group's depreciation policies as set out in Note 6 Property, plant and equipment. Revenue arising from assets leased out under operating leases is recognised on a straight-line basis over the lease periods.

Notes to the Financial Statements continued

33 FINANCIAL LIABILITIES SUMMARY

This note should be read in conjunction with the liquidity risk in strategy Delivery & Risks – Enhancing Corporate & Financial Profile section on page 18. Maturity profile of the Group's financial liabilities, net-settled derivative financial instruments and gross-settled derivative financial instruments, representing contractual cash flows which include principal and interest elements where applicable, based on the remaining period from the balance sheet date to the contractual maturity date is as follows:

	Within one year		In the second year		In the third to fifth year		After the fifth year		Total	
US$'000	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
Long-term borrowings										
– Gross liabilities under finance leases	19,318	6,091	–	19,318	–	–	–	–	19,318	25,409
– Secured bank loans	179,735	127,247	97,537	183,464	235,007	229,261	256,843	264,883	769,122	804,855
– Convertible bonds	5,989	6,346	213,755	6,346	128,443	362,777	–	–	348,187	375,469
Derivative financial instruments										
(i) Net-settled (a)										
– Interest rate swap contracts	6,164	7,412	3,250	5,095	36	3,430	–	1,575	9,450	17,512
– Bunker swap contracts	22,532	724	5,887	340	2,061	211	144	–	30,624	1,275
– Forward freight agreements	237	1,666	–	–	–	–	–	–	237	1,666
(ii) Gross-settled (b)										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	138,535	60,950	26,829	124,532	74,863	77,657	74,959	98,995	315,186	362,134
– inflow	(132,349)	(63,362)	(24,390)	(131,695)	(71,270)	(80,416)	(77,120)	(110,431)	(305,129)	(385,904)
Net outflow/(inflow)	6,186	(2,412)	2,439	(7,163)	3,593	(2,759)	(2,161)	(11,436)	10,057	(23,770)
Current liabilities										
Trade and other payables	120,141	131,933	–	–	–	–	–	–	120,141	131,933

(a) Net-settled derivative financial instruments represent derivative liabilities whose terms result in settlement by a netting mechanism, such as settling the difference between the contract price and the market price of the financial liabilities.

(b) Gross-settled derivative financial instruments represent derivative assets or liabilities which are not settled by the above mentioned netting mechanism.

The Company was not exposed to any individual significant liquidity risk in 2014 and 2013.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions (that do not fall under the definition of connected transaction or continuing connected transaction as defined in Chapter 14A of the Listing Rules) carried out in the normal course of the Group's business and on an arm's length basis were as follows:

(a) Sales of services

US$'000	2014	2013
Charter-hire income received from OMSA (i)	15,386	26,564
Management service fee received from OMSA (ii)	4,179	8,118

(i) The Group leased out certain vessels to OMSA.

(ii) The Group provided technical and other management services to OMSA.

OMSA was a joint venture that was disposed in 2014.

(b) Key management compensation

For the key management compensation (including Directors' emoluments) and the accounting policy on employee benefits, please refer the Remuneration Report on page 59.

35 FINANCIAL GUARANTEES

At 31 December 2014, the Company has given corporate guarantees with maximum exposures of US$675.0 million (2013: US$671.2 million) for certain subsidiaries of Pacific Basin Dry Bulk and PB Towage segments in respect of loan facilities granted to the subsidiaries.

Accounting policy

Financial guarantee contracts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary holder of the guarantee (i.e. the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

36 CONTINGENT LIABILITIES AND CONTINGENT ASSETS

The Company has no contingent liabilities and contingent assets at 31 December 2014 and 2013.

Accounting policy

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements when an outflow of economic resources is probable, a provision is recognised.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group.

Contingent assets are not recognised but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable. When an inflow is virtually certain, an asset is recognised.

37 EVENTS AFTER THE BALANCE SHEET DATE

The transaction to sell the Group's harbour towage business completed in February 2015. This disposal, together with the refund of the business' cash balance and the sale of a tug and a barge to the same buyer, generated proceeds equivalent to approximately US$63 million.

Page 29
PB Towage
Our Performance and Business Highlights

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES

At 31 December 2014, the Company has direct and indirect interests in the following principal subsidiaries:

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
Shares held directly:				
Others:				
PB Vessels Holding Limited	BVI	US$1,191,118,775	100	Investment holding
PB Management Holding Limited	BVI	US$12,313	100	Investment holding
PB Issuer (No. 2) Limited	BVI	US$1	100	Convertible bond issuer
PB Issuer (No. 3) Limited	BVI	US$1	100	Convertible bond issuer
Shares held indirectly:				
Pacific Basin Dry Bulk:				
Astoria Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Baker River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Baltic Sea Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Barrow Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Bass Strait Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Bell Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Bernard (BVI) Limited	BVI/Int'l	US$51,001	100	Vessel owning and chartering
Bonny Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Bright Cove Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Cape York Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Champion Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Cherry Point Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Chiloe Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Columbia River Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Corio Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Cramond Island Limited	HK	HK$1	100	Vessel owning
Delphic Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	HK/Int'l	HK$1	100	Vessel owning and chartering
Eastern Cape Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Elizabay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Elizabeth Castle Limited	BVI/Int'l	US$1	100	Vessel chartering
Elizabeth River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Esperance Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Everclear Shipping (BVI) Limited	BVI/Int'l	US$31,001	100	Vessel owning and chartering
Finest Solution Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Francesca Shipping (BVI) Limited	BVI/Int'l	US$30,001	100	Vessel owning and chartering
Future Sea Limited	HK/Int'l	HK$1	100	Vessel owning and chartering

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
Gold River Vessel Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Good Shape Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Hainan Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Helen Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Honey Island Limited	HK	HK$1	100	Vessel owning
Illovo River Limited	HK	HK$1	100	Vessel owning
Imabari Logger Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Impression Bay Limited	HK	HK$1	100	Vessel owning
Incheon Bay Limited	HK	HK$1	100	Vessel owning
Indian Ocean Limited	HK	HK$1	100	Vessel owning
Indigo Lake Limited	HK	HK$1	100	Vessel owning
Isabela Island Limited	HK	HK$1	100	Vessel owning
Jamaica Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
James Bay Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jericho Beach Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jervis Bay Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jiangmen Trader Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Judith Shipping (BVI) Limited	BVI/Int'l	US$38,001	100	Vessel owning and chartering
Jules Point Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Jumeirah Beach Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Kaiti Hill Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Kanda Logger Limited	HK	HK$1	100	Vessel owning
Key West Shipping Limited	HK	HK$1	100	Vessel owning
Kodiak Island Limited	HK	HK$1	100	Vessel owning
Kultus Cove Limited	HK	HK$1	100	Vessel owning
Labrador Shipping (BVI) Limited	BVI/Int'l	US$38,001	100	Vessel owning and chartering
Lake Stevens Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Liberty Vessel Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Luzon Strait Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Marsden Point Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Matakana Island Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mega Fame Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Mount Adams Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Mount Aso Limited	HK	HK$1	100	Vessel owning
Mount Baker Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mount Hikurangi Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Mount Rainier Limited	HK/Int'l	HK$1	100	Vessel owning and chartering

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES (CONTINUED)

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
Mount Seymour Limited	HK	HK$1	100	Vessel owning
Newman Shipping (BVI) Limited	BVI/Int'l	US$26,001	100	Vessel owning and chartering
Nobal Sky Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Oak Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Olive Bay Limited	HK	HK$1	100	Vessel owning
Orange River Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Osaka Bay Limited	HK	HK$1	100	Vessel owning
Otago Bay Limited	HK	HK$1	100	Vessel owning
Otago Harbour Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Othello Shipping (BVI) Limited	BVI/Int'l	US$26,593	100	Vessel owning and chartering
Oyster Bay Limited	HK	HK$1	100	Vessel owning
Pacific Basin Chartering Limited	BVI/Int'l	US$10	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 2) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 3) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 4) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 5) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 6) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 7) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 8) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 9) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 10) Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Pacific Basin Chartering (No. 11) Limited	HK/Int'l	HK$1	100	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	HK/Int'l	HK$1	100	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	HK/Int'l	HK$1	100	Vessel chartering
Port Alberni Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Alfred Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Alice Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Port Angeles Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Port Botany Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Puget Sound Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Supreme Effort Group Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Swan River Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Tampa Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Uhland Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
Verner Shipping (BVI) Limited	BVI/Int'l	US$1	100	Vessel owning and chartering
West Bay Shipping Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
White Bay Limited	HK/Int'l	HK$1	100	Vessel owning and chartering
Zhoushan Shipping Limited	BVI/Int'l	US$1	100	Vessel owning and chartering

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
PB Towage:				
PB Offshore (No.2) Limited	Cook/Int'l	US$10	100	Tug owning and chartering
PB Pearl Limited	Cook/Int'l	US$2	100	Tug & barge owning and chartering
PB Pride Limited	Cook/Int'l	US$2	100	Tug & barge owning and chartering
PB Progress Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Sea-Tow Asia Pte. Ltd.	Singapore	US$1	100	Tugs chartering
PB Sea-Tow (Australia) Pty Ltd	Australia	AUD1	100	Ship management services
PB Sea-Tow (Australia) Crewing Pty Ltd	Australia	AUD1	100	Crew management services
PB Sea-Tow (Australia) Marine Operations Pty Ltd	Australia	AUD1	100	Operations services
PB Sea-Tow (BVI) Limited	BVI/Int'l	US$1	100	Ship management services
PB Sea-Tow Crewing (NZ) Limited	New Zealand	NZD1	100	Crew management services
PB Sea-Tow Niugini Pte. Ltd.	Singapore	S$1	100	Tugs chartering and operation
PB Sea-Tow (NZ) Limited	New Zealand	NZD1	100	Ship management services
PB Sea-Tow Operations (NZ) Limited	New Zealand	NZD1	100	Ship management services
PB Towage (No.1) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage (No.2) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage (No.3) Limited	Cook/Int'l	US$2	100	Barges owning and chartering
PB Towage (No.4) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage (No.5) Limited	Cook/Int'l	US$2	100	Tugs owning and chartering
PB Towage Asset (No.2) Limited	Cook/Int'l	US$2	100	Tug owning and chartering
PB Towage Middle East Limited	Cook/Int'l	US$2	100	Ship management services
True Colour Ventures Limited	BVI	US$1	100	Operations services
PB RoRo:				
Prospect Number 59 Limited	E&W	GBP1	100	Vessel owning and chartering
Prospect Number 60 Limited	E&W	GBP1	100	Vessel owning and chartering
Others:				
Asia Pacific Capital Developments Limited 亞太資本發展有限公司	HK	HK$1	100	Property holding
Pacific Basin Agencies Limited 太平洋航運代理有限公司	HK/Int'l	HK$1	100	Holding company of Japan
Pacific Basin Handymax Limited	HK	HK$1	100	Ship management services
Pacific Basin Handymax (UK) Limited	E&W	GBP1	100	Ship management services
Pacific Basin Handysize Limited	BVI/HK	US$10	100	Ship management services
Pacific Basin Handysize (HK) Limited	HK	HK$1	100	Ship management services
Pacific Basin Handysize (UK) Limited	E&W	GBP2	100	Ship management services

Notes to the Financial Statements continued

38 PRINCIPAL SUBSIDIARIES (CONTINUED)

Company Name	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held %	Principal activities
Pacific Basin Shipping (Australia) Pty Ltd [1]	Australia	AUD1	100	Shipping consulting services
Pacific Basin Shipping (Canada) Limited	BC, Canada	1 common share without par value	100	Shipping consulting services
Pacific Basin Shipping (Chile) Limitada	Chile, Santiago	Chilean pesos equivalent to US$6,000	100	Shipping consulting services
Pacific Basin Shipping (Germany) GmbH	Germany	EUR25,000	100	Shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運(香港)有限公司	HK	HK$20	100	Ship agency services
Pacific Basin Shipping Middle East DMCC [1]	Dubai Multi Commodities Centre (DMCC)	AED500,000	100	Shipping consulting services
Pacific Basin Shipping (New Zealand) Limited [1]	New Zealand	100 shares without par value	100	Shipping consulting services
Pacific Basin Shipping (South Africa) Pty Ltd [1]	Republic of South Africa	120 shares without par value	100	Shipping consulting services
Pacific Basin Shipping (UK) Limited	E&W	GBP2	100	Shipping consulting services
Pacific Basin Shipping (USA) Inc.	USA	US$1,000	100	Shipping consulting services
PB Commerce Limited	BVI/HK	US$1	100	Investment holding
PB Maritime Personnel Inc.[1]	The Philippines	PHP$17,300,000	100	Crewing services
PBS Corporate Secretarial Limited	HK	HK$1	100	Secretarial services
Taihua Shipping (Beijing) Limited [1 & 2] 太華船務(北京)有限公司	PRC	US$4,000,000 (registered capital)	100	Agency and ship management services

(1) The financial statements of these subsidiaries have not been audited by PricewaterhouseCoopers. The aggregate net assets and net results for the year attributable to the shareholders of the Group amounted to approximately US$6,492,000 (2013: US$8,356,000 profit) and US$172,000 loss (2013: US$521,000 loss) respectively.

(2) The subsidiary is wholly foreign-owned enterprise established in the PRC, with registered capital fully paid up by the Group.

(3) Under the place of incorporation/operation, “BVI” represents “The British Virgin Islands”, “Cook” represents “The Cook Islands”, “E&W” represents “England and Wales”, “HK” represents “Hong Kong” and “Int’l” represents “International”.

Independent Auditor's Report

To the shareholders of Pacific Basin Shipping Limited

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 70 to 122, which comprise the consolidated and company balance sheets as at 31 December 2014, and the consolidated income statement, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the consolidated financial statements.

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

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2014, and of the Group's loss and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 26 February 2015

Group Financial Summary

US$'000		2014	2013	2012	2011	2010
Results						
Continuing operations						
Revenue		**1,718,454**	1,708,792	1,443,086	1,312,789	1,268,542
Gross (loss)/ profit		**(39,624)**	55,097	85,315	108,437	159,329
(Loss)/profit before taxation		**(278,525)**	11,026	53,845	122,758	104,791
Taxation		**(1,217)**	(1,168)	(1,624)	(178)	(453)
(Loss)/profit for the year		**(279,742)**	9,858	52,221	122,580	104,338
Discontinued operations[1]						
Loss for the year		**(5,222)**	(8,335)	(210,693)	(90,598)	–
Eligible (loss)/profit attributable to shareholders		**(284,964)**	1,523	(158,472)	31,982	104,338
Balance Sheet						
Total assets		**2,307,516**	2,537,446	2,470,275	2,431,752	2,555,388
Total liabilities		**(1,305,770)**	(1,233,152)	(1,138,254)	(946,837)	(1,010,497)
Total equity		**1,001,746**	1,304,294	1,332,021	1,484,915	1,544,891
Net borrowings		**636,319**	551,163	178,013	160,818	156,029
Total cash and deposits		**363,425**	486,062	753,458	618,221	703,437
Cash Flows						
From operating activities		**93,652**	98,142	148,737	159,361	198,577
From investment activities of which		**(131,683)**	(114,186)	(247,600)	(103,443)	(462,154)
gross investment in vessels		**(194,472)**	(456,497)	(188,295)	(167,592)	(540,612)
From financing activities		**(112,536)**	36,773	110,181	(166,322)	(96,532)
Other Data						
Basic EPS	US cents	**(15)**	0.1	(8)	2	5
Dividends per share[2]	US cents	**1**	1	1	1	3
Eligible profit payout ratio		**>100%**	>100%	>100%	78%	51%
Cash flows from operating activities per share	US cents	**5**	5	8	8	10
Net book value per share	US cents	**52**	67	69	77	80
Dividends	US$'000	**12,489**	12,385	12,397	24,895	53,441

1 The financial information for the year ended 31 December 2010 was extracted from the Group Financial Summary in the 2010 Annual Report. No retrospective restatement for the discontinued operations was made to such information.

2 The 2014 dividends represent the proposed final dividend of HK 5 cents per share.

www.pacificbasin.com
Investor Relations > Financial Summaries & Download
Group financial summaries since listing