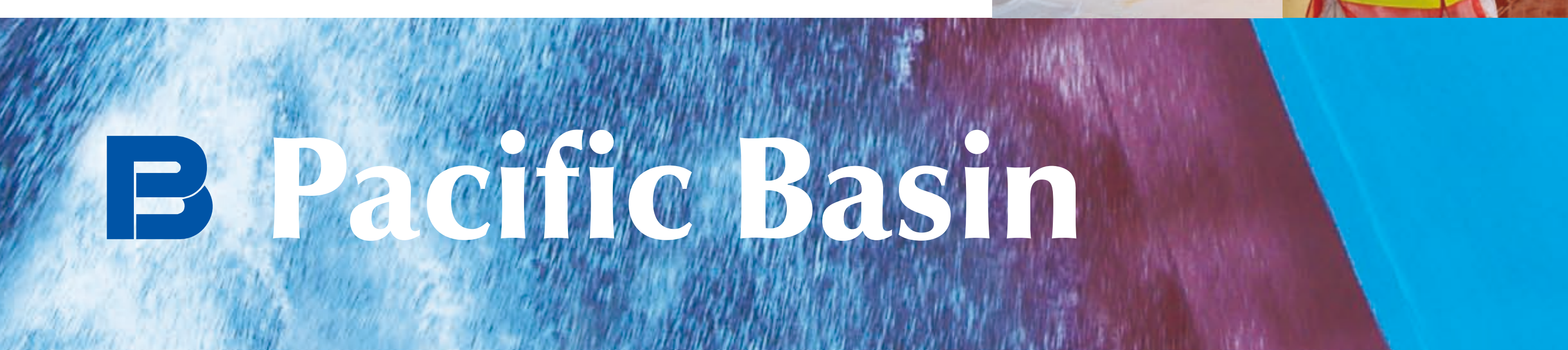
2011 ANNUAL REPORT



Pacific Basin

Our 2011 Annual Report is different. The changes represent our first evolutionary steps towards more "Integrated Reporting"

That should result in a more concise, better flowing and holistic review of our business

We hope this is a clearer, more useful and informative report that appeals to a broad group of stakeholders

We welcome your comments and invite you to complete a feedback questionnaire available at the back of this report and on our website at www.pacificbasin.com

Key to navigation symbols

page — linkage to related details within the Annual Report

website — linkage to related details on our website or other external sites

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

Our cover photo was taken by Captain Jaene S. Felipe on board our Handysize ship "Santiago Basin", and the inside cover photo was taken by regular contributor Chris Howell of South Island, New Zealand. We wish to acknowledge them and our other staff and supporters who send in photos from time to time, for which we are very grateful

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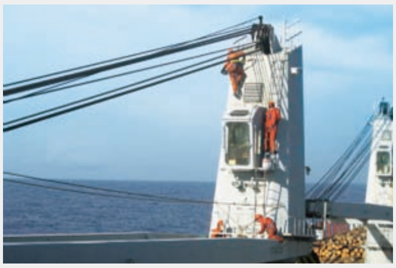


Governance

Financial Statements

Pacific Basin is a leading owner and operator of modern Handysize and Handymax dry bulk ships. We also own and operate offshore and harbour tugs and Roll-on Roll-off freight ferries


Pacific Basin Dry Bulk


PB Towage


PB RoRo

Our Vision

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

Our Mission

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

Our Strategy

To achieve sustainable growth through optimisation of our fleet and through a continuous drive for efficiency, responsibility professionalism in the way we run our business

To direct new investment towards our core dry bulk activity – patiently awaiting the right opportunities at the right price – thereby further strengthening our leading market position in the Handysize and Handymax segments

To invest further in our towage business and fleet as specific projects materialise

What We Stand for

We are committed to our **business**, our **people** and our **brand**, so what matters to us most is:

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

p.11 & 88 2011 accomplishments taking us closer to our vision

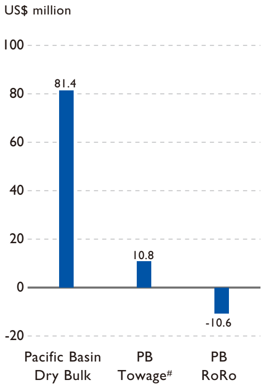
website Business Principles

OUR GROUP

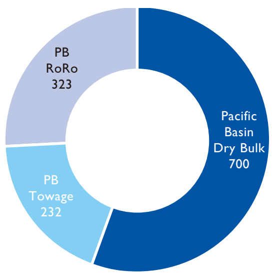
Pacific Basin is headquartered and listed in Hong Kong, we have 2,000 seafarers and 300* shore-based staff in 21 offices, and we operate globally in our three maritime segments under the banners of:

Pacific Basin Dry Bulk
PB Towage#
PB RoRo

2011 Segment Net Profit



Segment Net Assets (at year end)



Pacific Basin Dry Bulk

Our core dry bulk business is customer focused, providing industrial users and producers of raw materials and other dry bulk commodities with a professional, high-quality, reliable and competitive freight service, predominantly under long term cargo contracts and on a spot basis. Our service is enhanced by round-the-clock support from experienced freight and operations professionals in ten chartering offices around the world.

PB Towage

PB Towage# operates a fleet of modern, high-quality tugs which provide harbour towage services and offshore project towage support for energy and construction projects, operating mainly in Australasia under the banners of PB Towage and PB Sea-Tow.

PB RoRo

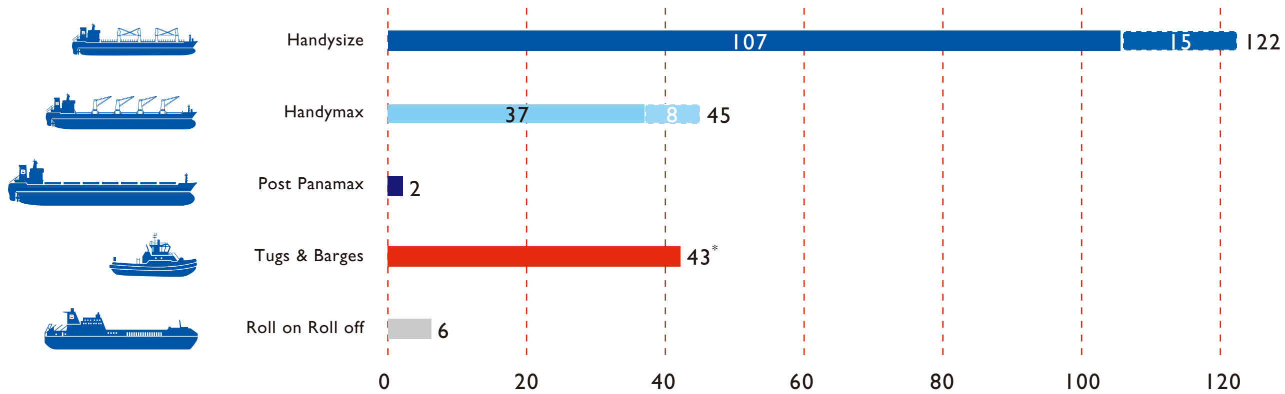
PB RoRo owns a new fleet of advanced Roll-on Roll-off ships of efficient, high-capacity design suited to the longer coastal freight ferry routes of Europe, the Mediterranean and an increasing number of other regions around the world. PB RoRo specialises in tonnage supply through chartering its ships to specialist RoRo operators.

* following our sale of PacMarine Services

\# previously "PB Energy & Infrastructure Services" ("PB EIS")

OUR FLEET

as at 23 February 2012



Number of newbuildings: 23

Number of vessels: 218

* Including 35 tugs, 7 barges and 1 bunker tanker

website Full fleet description

Group Overview
Business Review
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Governance
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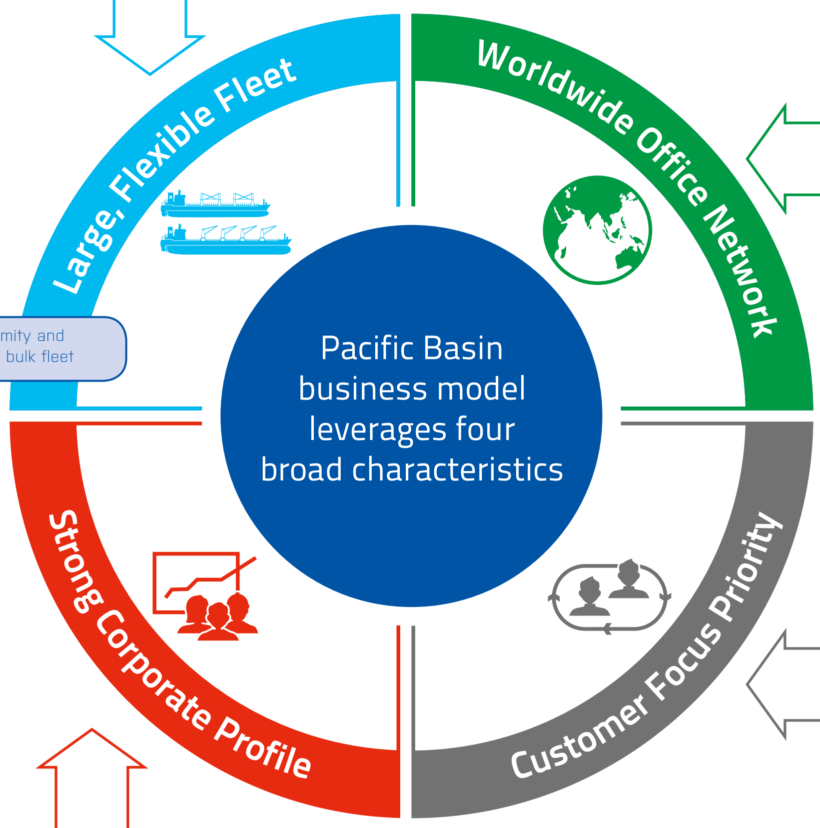
04 | How We Create Value

OUR DRY BULK BUSINESS MODEL

- Largest independent owner and operator of modern Handysize ships with 9% share of the global fleet of modern (max 15 years) 25,000-40,000 dwt bulk carriers
- Scale and uniformity of fleet enable competitive and reliable service to customers in a highly fragmented market
- Homogeneous fleet of interchangeable ships allows us to optimise our scheduling – maximising utilisation and earnings by reducing ballast legs
- Comprehensive in-house technical operations function enhances our ability as ship owners and operators to deliver high-quality, reliable service



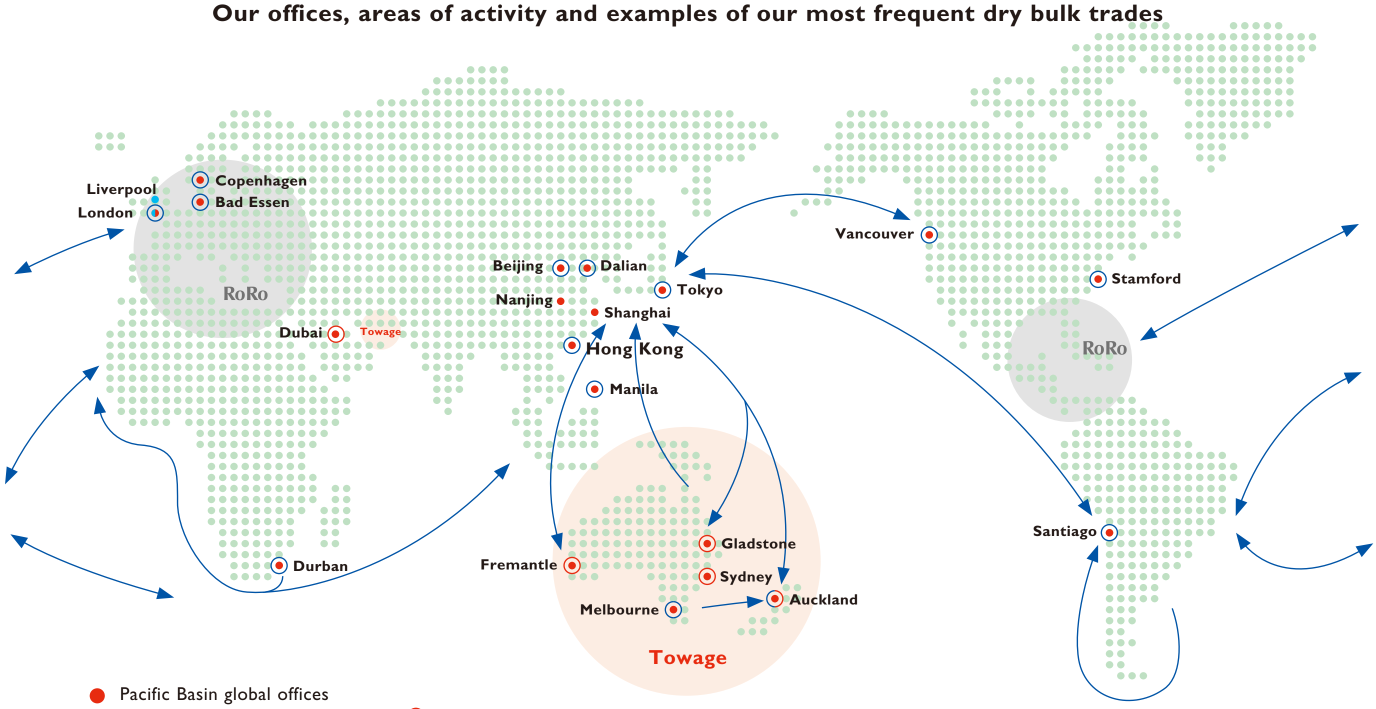
p.13 Description of uniformity and versatility of our dry bulk fleet

- Strong reputation based on good, transparent performance track record and sizeable market share
- Ability to engage closely with quality partners and stakeholders
- Our balance sheet enhances our profile: sets us apart as a preferred counterparty for cargo customers and tonnage providers, affording us access to excellent business opportunities
- CSR and environmental programmes

OUR WORLDWIDE OFFICE NETWORK

- 21 offices globally
- 14 dry bulk offices – including 10 chartering offices – across 6 continents position us close to customers
- Enables clear understanding of customers' needs and first-rate, localised customer service
- Facilitates comprehensive, accurate market intelligence

Our offices, areas of activity and examples of our most frequent dry bulk trades



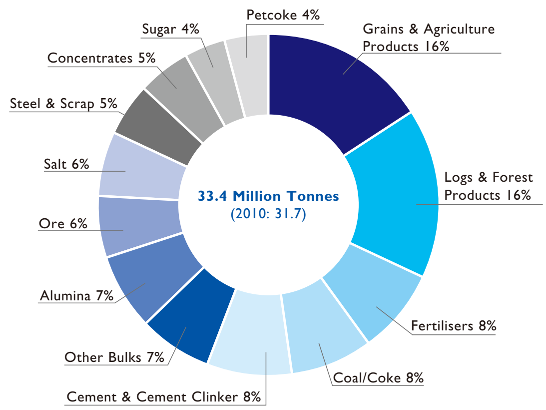
- Pacific Basin global offices
- Dry bulk offices
- Dry bulk trade route examples
- Towage offices
- Towage operations area
- RoRo office
- RoRo operations area

OUR CUSTOMER FOCUS

- Customer-focused business model facilitates strong relationships with over 300 industrial commodity producers and end-users
- Enhances access to spot cargoes and long term cargo contract opportunities
- Substantial cargo contract portfolio affords our customers access to reliable, competitive long term freight cover and reduces our exposure to spot market volatility
- Committed service delivery to customers



OUR DRY BULK CARGO VOLUMES IN 2011



06 | How We Run Our Business

A **summary** of our **key business drivers** and the **strategic objectives** we pursue to optimise opportunity and drive our performance (**KPIs**), so as to deliver shareholder value and take us closer to achieving our vision

KEY BUSINESS DRIVERS

Principal factors that influence the success of our business and the financial returns we generate

Our Fleet – How we deploy our capital

Investment is a significant driver for growth, and impacts our performance in a number of ways:

- Scale of our fleet
- Uniformity of our dry bulk fleet
- Flexibility in composition of our dry bulk fleet (owned versus chartered)
- Employment of our dry bulk ships (spot cargoes and longer term contract cargoes)
- Impact of prevailing market conditions
- Diversification of our business across three sectors
- Timing and choice of our investment
- Management of our cash and borrowings

Our relationships and global presence

- Customer focus
- Global network of offices
- Access to quality vessel providers, suppliers and people
- Access to competitive funding

Our people

- Staff skills, experience and expertise
- Talent and leadership development
- Succession planning
- Employee engagement and fulfilment

Our corporate profile, safety & reliability

- Performance in safety and reliability
- Commitment to CSR and sustainable growth
- Recognised corporate profile

Our commitment to good Corporate Governance and Investor Relations

- Standards of corporate governance
- Integrity of external communications with shareholders

2012 STRATEGIC OBJECTIVES

How we address our key drivers, providing a framework for sound business management to optimise opportunity and mitigate risk

Deliver strong, sustainable returns to shareholders

- Grow our dry bulk fleet: in the current down-cycle, purchase and secure long term chartered Handysize and Handymax ships
- Secure dry bulk contract cargo cover
- Expand our towage business and fleet as and when customers' new projects dictate
- Maintain competitive daily vessel costs
- Maintain net borrowings and gearing below long term targets
- Maintain significant cash reserves

Deepen our relationships

- Deliver highest achievable degree of customer satisfaction
- Maintain our reputation and stakeholder network
- Enhance our growing reputation in the towage and RoRo markets

Ensure we have best people and skill

- Develop staff skills, talent and leadership
- Invest in an engaging, inclusive and fulfilling workplace

Ensure long term sustainability of our business

- Meet our high safety and environmental targets

Governance and Investor Relations best practice

- Assess and evolve our internal governance practices
- Engage in active communication with stakeholders

website Divisional strategic objectives and priorities

KPIs

Headline measures we use to monitor progress against our strategic objectives

RISKS

Principal risks that might derail our progress towards achieving our vision and impact shareholder value

p.58 Risk management

Financial performance

KPIs:
- Underlying profit
- Dividend per share
- Operating cash to EBITDA ratio
- Gearing on NBV
- Revenue days
- Vessel revenue
- Fleet utilisation
- Vessel costs
- Return on net assets

Risks:
- **Market Risks** – Volatility in:
  - freight or charter markets
  - operating costs, interest rates and fuel prices
  - foreign currency exchange rates
- **Investment & Deployment Risk** – Poor timing and choices of ship investment, fleet composition and vessel deployment
- **Credit & Counterparty Risk** – Default or breach of obligations by our counterparties
- **Insurance Risk** – Inadequate insurance covering maritime risks
- **Liquidity Risk** – Maintaining sufficient cash resources and ability to service debt and comply with key loan-to-value covenants
- **Capital Management Risk** – Adequacy of profit, operating cash and management of capital structure

Pacific Basin Dry Bulk – An inability to grow our long term cargo book in tandem with our fleet would result in increased exposure to the more volatile spot freight market

PB Towage – Market shifts, competitive threats and cost escalation prevalent in the Australasian towage segment could adversely impact financial performance

PB RoRo – The RoRo charter market is severely depressed making profitable employment difficult until we see a sustained revival in existing RoRo trades or the establishment of new trades. Delayed market recovery will lead to further losses for our RoRo division

Relationships & Customer satisfaction

KPIs:
- Earnings cover

Risks:
- **Customer Satisfaction & Reputation Risk** – Damage to the trust and support of customers and suppliers
- **Banking Relationships Risk** – Deterioration of our relationships with banks and other debt providers

Pacific Basin Dry Bulk – Failure to maintain close relations with shipyards and ship owners may severely limit access to the best Handysize and Handymax vessels

People and skills

KPIs:
- Staff turnover
- External training

Risks:
- **Employee Engagement Risk** – Failure to attract, engage, develop and retain talented, qualified and reliable shipping executives, seafarers and specialist staff

PB Towage – A tight and regulated labour market and substantial resource shortages in Australia make it difficult to attract skilled tug crew and quality shore staff

Safety, environment and reliability

KPIs:
- CO_2 Index
- Pollution incidents
- External safety inspection record
- Injury incidents & frequency
- Off-hire

Risks:
- **Safety Risk** – Inadequate safety, operational and training standards on our vessels and piracy threat
- **Environmental Risk** – Inadequate systems and initiatives to reduce our environmental impacts
- **Vessels & Systems Risk** – Failure to operate and utilise reliable, high-quality vessels, equipment and systems resulting in periods of vessel off-hire

Maintaining investor & stakeholder confidence

KPIs:
- Investor meetings

Risks:
- **Corporate Governance Risk** – Inadequate corporate governance structure resulting in unprofessional decision making and reduced stakeholders confidence in the Company
- **Investor Relations Risk** – Poor quality or inaccurate external communication of our business

■ Examples of current risks faced by our divisions

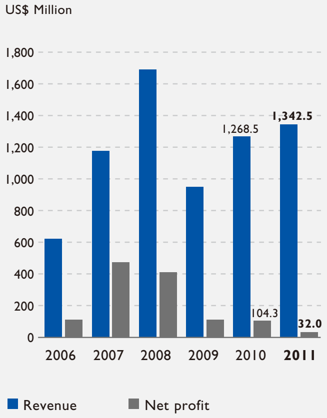
08 | 2011 Performance Highlights

p.27 KPIs – monitoring the health of our group

Group

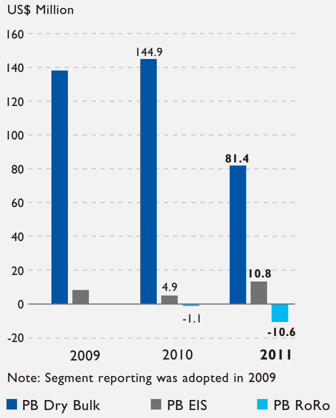
Revenue and Net Profit

$32 MILLION NET PROFIT ▼ 69.3%



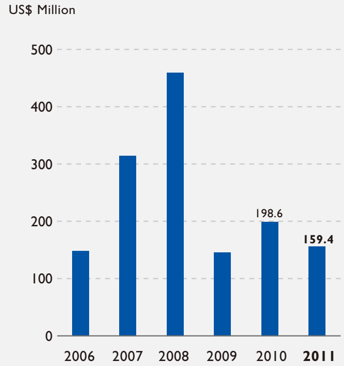
Segment Net Profit

$81 MILLION DRY BULK ▼ 43.8%



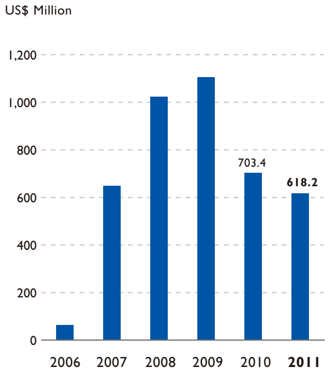
Operating Cash Flow

$159 MILLION ▼ 19.7%



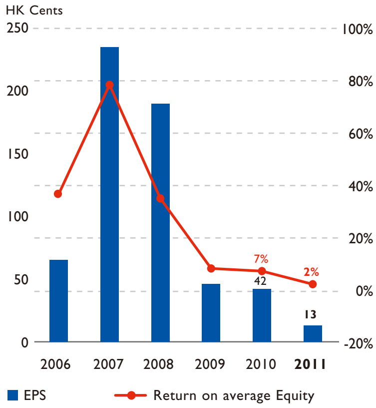
Cash Position

$618 MILLION ▼ 12.1%



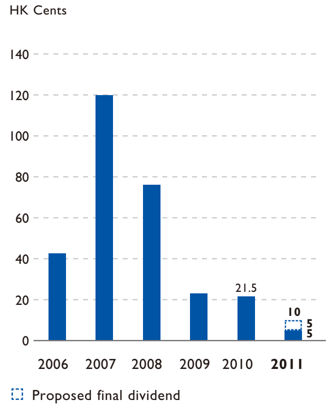
Earnings per Share & Return on average Equity

HK¢13 EPS ▼ 69.0%



Dividend per Share

HK¢10 ▼ 53.5%

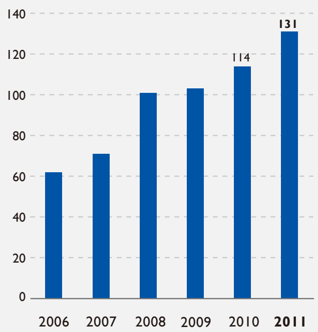


Dry Bulk

Our Dry Bulk Fleet Size

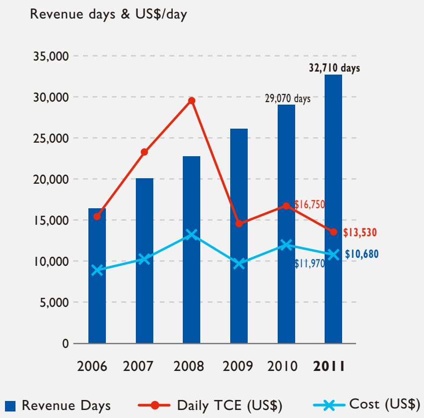
Average number of ships on the water

131 SHIPS ▲ 14.9%



Handysize Revenue Days & Daily Rates

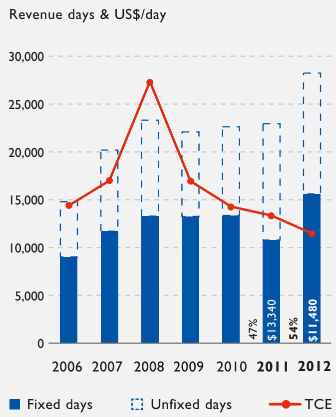
$13,530 PER DAY ▼ 19.2%



Handysize Contract Cover

as at annual results announcement date

54% ▲ 7%



BUSINESS HIGHLIGHTS

RESPECTABLE PERFORMANCE IN DIFFICULT MARKET CONDITIONS

2011 was a profitable year in which our dry bulk and towage businesses supported respectable though weaker Group results undermined by a depressed RoRo market:

- Our Handysize earnings outperformed the deteriorating spot market by 35% amidst mounting challenges for dry bulk
- Our towage business demonstrated its ability to capitalise on improved markets for tugs in Australasia
- Our RoRo business faced continued depression in the freight ferry market leading to an unsatisfactory performance
- Despite weaker underlying profits, a strong operating cash flow has again augmented our balance sheet

CONTINUED FLEET GROWTH

- We operated an average of 131 dry bulk ships and our fleet (including newbuildings) now comprises 169 dry bulk ships, 43 tugs and barges and 6 RoRos
- We have fully funded vessel capital commitments of US$322 million, substantially all in dry bulk vessels
- Our balance sheet retains substantial buying power to execute our dry bulk-focused growth strategy with US$618 million in cash and deposits and net borrowings of US$161 million

EXPANDED OFFICE NETWORK AND NEW TRADES ENHANCE OUR REVENUE GENERATION

- Chartering offices across 6 continents, increased operation of short term chartered ships and expanded parcelling and project cargo activity have broadened business opportunities for our dry bulk fleet

STRONG ENVIRONMENTAL PERFORMANCE AND ENHANCED CORPORATE PROFILE

- Our brand was significantly enhanced with prestigious regional and global awards for excellence in ship operating, ship management, environment and safety, CSR, investor relations and governance

FINANCIAL SUMMARY

		2011 US$ Million	2010 US$ Million	2009 US$ Million
Results	Revenue	**1,342.5**	1,268.5	950.5
	Gross profit	**107.6**	159.3	152.8
	Finance costs, net	**(31.3)**	(31.2)	(27.3)
	Underlying profit	**57.8**	119.8	115.8
	EBITDA	**149.9**	214.7	197.8
	Net profit attributable to shareholders	**32.0**	104.3	110.3
Balance Sheet	Total assets	**2,431.8**	2,555.4	2,469.9
	Net borrowings/(cash)	**160.8**	156.0	(229.1)
	Shareholders' equity	**1,484.9**	1,544.9	1,455.6
	Cash and deposits#	**618.2**	703.4	1,105.7
	Capital commitments	**334.5**	426.9	310.3
Cash Flows	Operating	**159.4**	198.6	145.3
	Investing	**(35.0)**	(462.2)	(177.8)
	Financing	**(166.3)**	(96.5)	(360.1)
	Change in cash	**(42.0)**	(360.1)	23.3
		HK cents	HK cents	HK cents
Per Share Data	Basic EPS	**13**	42	46
	Dividends	**10**	21.5	23
	Operating cash flows	**64**	81	61
	Net book value	**597**	621	585
	Share price at year end	**311**	517	563
	Market capitalisation at year end	**HK$6.0bn**	HK$10.0bn	HK$10.9bn
Ratios	Net profit %	**2%**	8%	12%
	Eligible profit payout ratio	**78%**	51%	51%
	Return on average equity	**2%**	7%	8%
	Total shareholders' return	**(36%)**	(5%)	62%
	Net borrowings/(cash) to Net Book Value of property, plant and equipment	**11%**	10%	(23%)
	Net borrowings/(cash) to shareholders' equity	**11%**	10%	(16%)
	Interest coverage	**3.4X**	4.3X	5.1X

p.33 # Financial Review – cash position analysis

FINANCIAL RESULTS & DIVIDEND

The Group produced a net profit of US$32 million (2010: US$104 million) from an underlying profit of US$58 million. Basic EPS was HK$0.13 and return on shareholders' equity was 2%. Our Operating cash flow remained strong at US$159 million (2010: US$199 million).

Our results for the year were impacted by:

1. weaker Handysize spot rates which drove a 19% decrease in our Handysize daily earnings and a 23% decrease in operating cash flow;
2. improved towage markets and a strong US$15 million contribution from PB Towage;
3. a significant US$80 million non-cash impairment of our RoRo investment as reported in our interim results; and
4. a partially offsetting net profit of US$56 million on the sale of a non-core asset (Green Dragon Gas) in the first half of the year.

The Board has recommended a final dividend of HK 5 cents per share bringing the total for 2011 to HK 10 cents per share (2010: HK 21.5 cents), representing a payout ratio of 78% of profits.

PERFORMANCE OVERVIEW

Our core dry bulk shipping business delivered a respectable performance in 2011 against the backdrop of a significantly weaker market.

Our average Handysize daily earnings outperformed the market, falling only 19% year on year to US$13,530 per day, as compared to spot freight rates which fell 36% to US$10,025 per day. Our performance was enhanced by the value of our cargo book throughout the period and by our business model which continues to ensure a world-class service for customers while delivering value for our shareholders and other stakeholders.

While our Handymax earnings outperformed the market by 10%, our Handymax results were disappointing due mainly to our reliance on relatively expensive short term chartered ships and the cost of repositioning ships into more favourable areas in response to the Queensland floods in early 2011.

p.13 & 26 See Business Review and Financial Review for more on our three divisions

PB Energy & Infrastructure Services (now renamed "PB Towage") had a much improved year led by our towage activity despite losses on the closure of our Fujairah infrastructure business. Our towage team demonstrated its ability to capitalise on improved markets for offshore and harbour tugs in Australasia to generate a strong contribution to Group results.

However, continued depression in the Euro-centric RoRo market and suspension of the Nafta Gulf Bridge service have led to another disappointing year for our RoRo division, which has significantly impacted our results following the impairment in the middle of the year.

INVESTMENT AND BALANCE SHEET

As at 31 December 2011, we had cash and deposits of US$618 million and net borrowings of US$161 million. During the year, six new dry bulk purchase commitments were made. Our vessel capital expenditure obligations currently amount to US$322 million payable in the next three years in respect of 16 ships, leaving substantial buying power on our balance sheet for further fleet expansion.

VISION AND STRATEGY

In 2011, we formalised our Company's vision, mission and a collection of business principles which have defined Pacific Basin for many years. Those business principles speak of commitment, motivation, diligence, respectfulness and other traits that make Pacific Basin what it is today.

Strategically, we seek to achieve sustainable growth through optimisation of our fleet of ships, and through a continuous drive for efficiency, responsibility and professionalism in the way we run our business. We are confident that we have positioned ourselves appropriately to grow and weather these challenging times.

We continue to direct new investment predominantly towards our core dry bulk activity – patiently growing our owned fleet and equipping ourselves with improved tools to support our increased scale – thereby further strengthening our leading market position in our segments.

We took a significant step forward last year in equipping ourselves with an upgraded maritime operating system and new processes to match. These are already generating meaningful efficiencies, enabling our existing team to manage more ships and optimise our service to customers.

p.2 Vision & Mission

In the drive towards our vision, we have made progress on a number of other strategic business areas focusing on...

...WHAT WE BELIEVE MATTERS MOST TO PACIFIC BASIN:

OUR *BUSINESS*, OUR *PEOPLE* AND OUR *BRAND*

CORPORATE PROFILE

For almost 25 years, Pacific Basin has built a strong name as a specialist Handysize bulk carrier owner and, since 1998, has evolved into an industrial provider of freight services directly to producers and end-users of raw materials and commodities.

Our performance and market share in our minor bulks focus area have earned us a strong reputation, allowing us to engage closely with excellent partners and stakeholders, including customers, ship owners, shipyards, suppliers and some of the best people in our industry. Our reputation and track record, supported by our strong balance sheet, set us apart as a preferred counterparty for cargo customers and tonnage providers, affording us access to long term business opportunities.

GOVERNANCE, ENVIRONMENT AND CSR

We believe good corporate governance and the rigour it brings to our decision-making process is central to a professionally managed company. Since our listing on the Hong Kong Stock Exchange in 2004, we have developed a solid corporate governance structure to underpin all other core components of our business and to enhance stakeholder confidence in Pacific Basin as a place to invest.

We target high standards of corporate social responsibility in the areas of Environment, Workplace and Community. While we have touched on these in our past annual reports, we now incorporate a CSR Report with a more detailed account of our environmental performance and other initiatives for a sustainable future.

Our standards of corporate governance and commercial, technical, safety, investor relations and CSR management have been increasingly recognised in recent years, with Pacific Basin winning prominent awards in all these areas.

I am happy to report that our efforts in the field of environmental responsibility were rewarded with the Environment Award at Lloyd's List Global 2011.

p.38 CSR Report
p.88 Awards in 2011

OUR PEOPLE

Our Captain Zhu Qianchun's receipt of Lloyd's List's "Seafarer of the Year" award perhaps says most about our Company: we are only as good as our staff at sea and ashore, and we believe our team comprises some of the best people in shipping. That team does not come together overnight, but is the result of considered investment in our staff and their workplace. Our diverse staff represent over 30 nationalities and it is they – combined with the quality of our management and governance standards – who make our vision possible.

p.38 Captain Zhu's Tsunami battle

OUTLOOK

Notwithstanding – and in part because of – the prevailing challenging markets, the Board continues to be confident in our current strategy, objectives and business model and our ability to deliver a world-class service, sustainable long term growth and shareholder value.

We expect dry bulk freight rates will be weaker overall in 2012. The dry bulk shipping market is in crisis, facing excess ship supply and a significant contraction in funding for secondhand and newbuilding purchases. For banks, this is in part due to tighter regulatory requirements and to covenant defaults by some clients requiring loans to be restructured or repaid. This crisis may generate fleet expansion opportunities at attractive prices for cash rich owners like ourselves.

With upgraded systems and processes in place to complement our business model and strong balance sheet, we have a unique framework on which to build our dry bulk fleet organically through the acquisition of ships or fleets at the right time and price.

The outlook for the towage market and our PB Towage business in Australasia is promising for the year ahead, but demand and supply side challenges are expected to drive continued severe weakness in the RoRo charter market.

Therefore, our **key strategic objectives** for the Group in 2012 are to:

Direct new investment predominantly towards expansion of our owned fleet of dry bulk ships, patiently awaiting and capitalising on acquisition opportunities we expect to arise
Grow our dry bulk customers and cargo contract portfolio in tandem with expansion of our core fleet in order to manage our market exposure
Invest further in our towage business and fleet as specific projects materialise in the increasingly active offshore projects market
Enhance our towage organisation with the aim of improving the execution efficiency of our project towage business
Secure best possible charters and utilisation for our RoRo fleet in what will be another very challenging year, with no plans to invest in expansion of our RoRo fleet
Consider opportunities for further divestment of non-core businesses

IN CLOSING

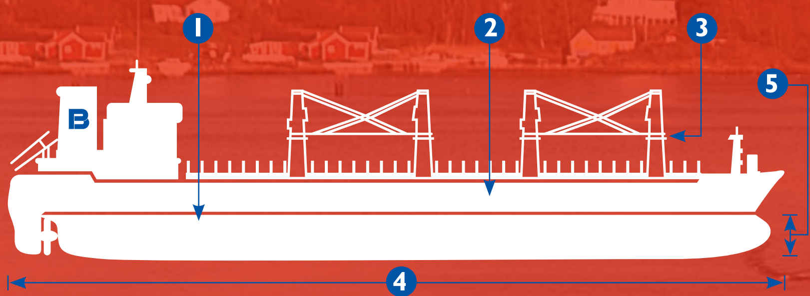
We bid a sad farewell to our outgoing CEO Klaus Nyborg whom we thank for managing our business so capably during his tenure and for inspiring so many of us here at Pacific Basin. We wish him well for the future back home in Denmark. Klaus will be leaving us on 15 March and we expect to announce his successor by the end of March.

On a final note, the Board joins me in thanking our conscientious staff and loyal customers and other stakeholders for their commitment to the Company over the past year and their continued support in the future.

David M. Turnbull
Chairman
Hong Kong, 1 March 2012

Business Review

WHAT ARE HANDYSIZE AND HANDYMAX SHIPS?



Handysize and Handymax bulk carriers are highly versatile ocean-going ships

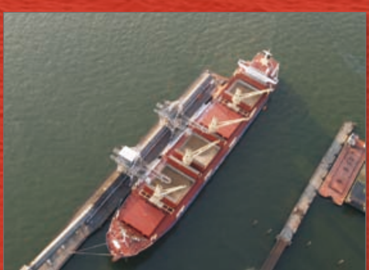
1. Handysize and Handymax ships can respectively carry 25,000-40,000 and 40,000-65,000 metric tonnes of cargo
2. Five cargo holds – each has the volume of up to 6 Olympic swimming pools

   Our ships' size and equipment are well suited to carrying a broad range of commodities – mainly in bulk but also in bagged or bundled form – such as grain, fertiliser, steel and logs
3. Four cranes with 30 ton lifting capacity – that's enough to lift 30 compact cars

   Cranes enable self-loading and discharging in regions lacking sophisticated cargo handling infrastructure such as the ecologically sensitive logging rivers of the Pacific North West and ill-equipped ports in parts of the developing world
4. Our ships are 170-190 metres long and 27-32 metres wide – that's the area of more than 15 tennis courts

   Their relatively "handy" proportions allow them access to many ports around the world including those restricted by shallow water, locks, narrow channels and tight river bends
5. While still large ships, their hulls only requires a depth of 10-12 metres when fully loaded

p.5 Analysis of the cargoes we carry



2011 DRY BULK MARKET REVIEW

FREIGHT MARKET SUMMARY

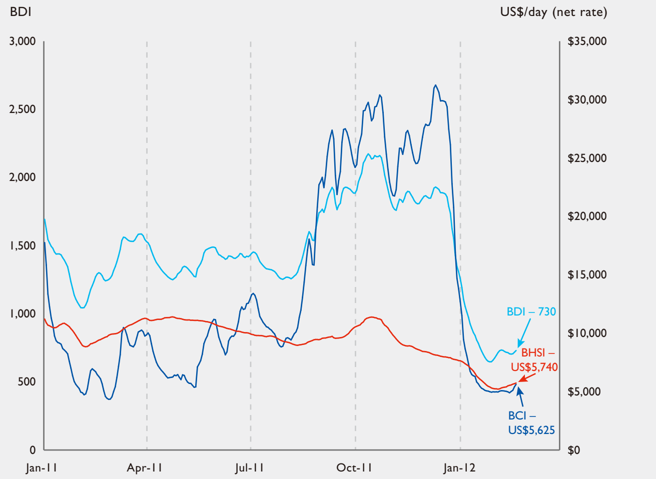
The dry bulk freight market was weaker and less volatile in 2011.

The market for Handysize and Handymax bulk carriers got off to a poor start and, despite some recovery in the second quarter, remained largely flat over the remainder of the year. Handysize spot rates traded in a narrow band and averaged US$10,025 per day in 2011 – down 36% year on year. Average Supramax rates also decreased 36% to US$13,680.

By contrast, average earnings for larger Capesize ships fell 53% and were more volatile, once again reflecting their greater sensitivity to market influences and a diminished correlation with earnings of other dry bulk segments since 2008.

2012 has again started poorly with a sharp decline in freight rates to 26-year lows attributable to the traditional rush of newbuilding deliveries in the new year, and the magnified impact on the dry bulk market of seasonal disruptions in increasingly influential dry bulk trade areas: monsoons in India and Southeast Asia, heavy rainfall in Brazil, cyclones in Australia, and winter and the Lunar New Year in China.

Baltic Dry Index (BDI) Versus
Baltic Handysize Index (BHSI) & Baltic Capesize Index (BCI)



Source: The Baltic Exchange, data as at 27 February 2012

DEMAND DRIVERS

IMPACTING SHIP VALUES

KEY DEMAND DEVELOPMENTS

Dry bulk transportation demand in 2011 is estimated by R.S. Platou to have increased by 10% reflecting the relatively healthy state of dry bulk activity last year, albeit offset by excessive expansion of supply.

Seasonal disruptions affected demand and rates for bulk carriers early in the year, though the market then benefited from a resurgence in imports to China which continued to dominate dry bulk developments:

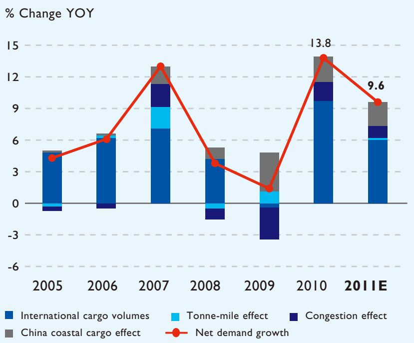
- Chinese minor bulk imports increased significantly
  - 37% more logs and forestry products imported and proportionally more sourced from further afield compounding demand for our logs-fitted ships
  - 92% more nickel and 49% more bauxite driving a five-fold increase in the bauxite volumes we carried
  - 12% more manganese and 11% more fertilisers
- Seaborne iron ore and coal imports experienced a slow first half and record-breaking second half to grow 11% and 10% respectively in the year overall; increased ore imports from less traditional sources benefitted demand for smaller vessel types
- Domestic dry bulk activity continued to grow strongly at around 20% absorbing capacity otherwise competing in international trades

India also played a more prominent role in 2011:

- Reduced Indian ore exports caused Far Eastern buyers to source from non-traditional exporters further afield, thereby increasing tonne-mile demand and benefiting smaller vessels not normally engaged in ore trades
- Indian coal imports increased 11% and we noted over 30% growth in Indian imports of logs from New Zealand

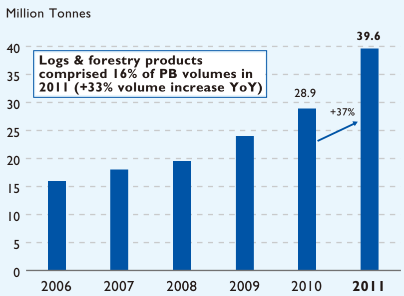
The relatively stable freight market (BDI) ended the year 3% higher than it began – evidencing the strength of dry bulk demand when the global fleet expanded at a record pace.

Dry Bulk Fleet Demand



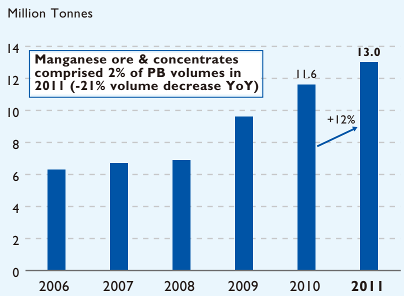
Source: RS Platou Markets

China Seaborne Imports of Forestry Products



Source: Clarksons

China Imports of Manganese Ore



Source: Bloomberg

SUPPLY DRIVERS

KEY SUPPLY DEVELOPMENTS

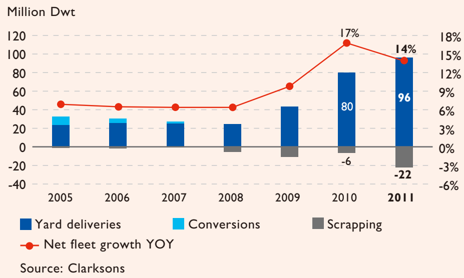
The global fleet of 25,000-40,000 dwt Handysize ships in which we specialise expanded by 7% net during 2011.

Overall dry bulk capacity expanded by 14% net during the year. This was driven by the delivery of 96 million deadweight tonnes of new capacity – 30% below the scheduled orderbook at the start of 2011, but still 20% more than the previous record deliveries of 2010.

The heavy influx of newbuildings was moderated by record-high scrapping with 22 million tonnes of dry bulk capacity sold for demolition (largely during the weaker freight market in the first half of the year) of which 15% (3.4 million tonnes) was attributable to the Handysize segment.

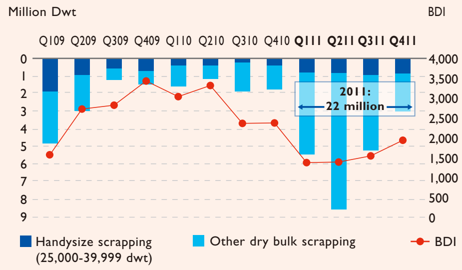
The freight market was in part also supported by increased inefficiencies in the trading of the dry bulk fleet as the East-West trade imbalance resulted in ships spending more time in ballast. High fuel prices exacerbated the uneven availability of ships by increasing the cost of ballasting to Atlantic load ports from the dominant discharge regions in the Pacific, and combined with lower earnings to stimulate slower steaming of the fleet.

Global Dry Bulk Fleet Development



Source: Clarksons

Dry Bulk Scrapping Versus BDI

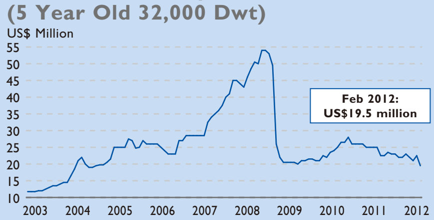


Source: Clarksons, Bloomberg

SHIP VALUES

Clarksons estimates the current value of their benchmark five year old Handysize (now defined as 32,000 dwt) to have fallen 22% year on year to US$19.5 million, which is now down to the levels seen in early 2009. Newbuilding prices fell to a similar degree and, at current prices, shipyards are struggling to remain profitable – especially as their costs increase – hence we expect to see more shipyard closures.

Secondhand Handysize Vessel Values (5 Year Old 32,000 Dwt)

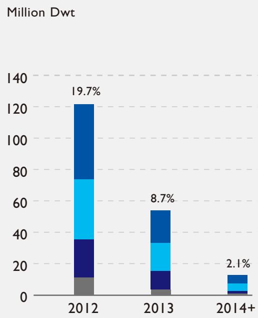


Source: Clarksons

ORDERBOOK

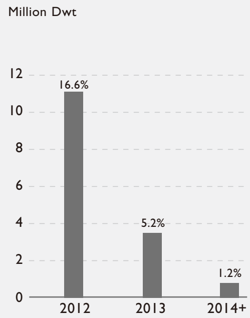
Challenging market conditions led to a more than 80% reduction in new ship ordering activity in 2011 which, combined with the heavy influx of new ship deliveries, has resulted in a significant reduction in the overhang of dry bulk ships on order. As at 1 February 2012, the orderbook for Handysize vessels stood at 23% – down by over one third year on year – as compared with 30.5% for dry bulk overall.

Orderbook by Year



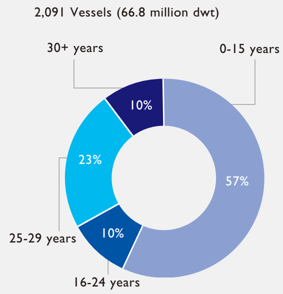
Source: Clarksons

Handysize Orderbook



Source: Clarksons

Handysize Age Profile



	Orderbook as % of existing fleet	Average age	Over 25 years old
Total Dry Bulk > 10,000 dwt	30.5%		
Handysize (25,000-39,999 dwt)	23%	14	33%
Handymax (40,000-64,999 dwt)	27%	10	14%
Panamax & Post-Panamax (65,000-119,000 dwt)	40%	9	5%
Capesize (120,000+ dwt)	31%	8	4%

Source: Clarksons, data as at 1 February 2012

HOW DID PACIFIC BASIN DRY BULK PERFORM IN 2011?

Our core Pacific Basin Dry Bulk division generated a significantly reduced but still respectable net profit of US$81 million, an 11% return on net assets and a relatively strong operating cash flow of US$138 million.

This weaker performance year on year mainly reflected a 19% decrease in our average Handysize daily earnings, but represented a good performance in the context of a significantly weaker market in which average Handysize spot rates fell 36%.

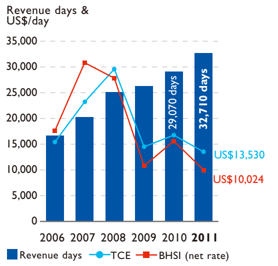
Once again, our ability to outperform the market was shaped by an increase in the number of ships we operated, the value of our cargo book throughout the period, and our strong, global organisation.

Dry Bulk net profit	**US$81.4m**
Handysize	US$89.8m
Handymax	US$(8.4)m
Operating cash flow	**US$138m**
Return on net assets	**11%**

KPI — Revenue Days and TCE (vs Market Indices) — Daily Opex Costs

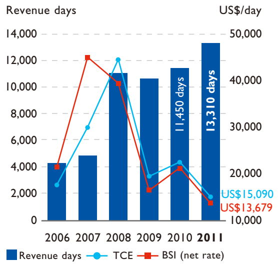
Handysize

35% Outperformance compared to market



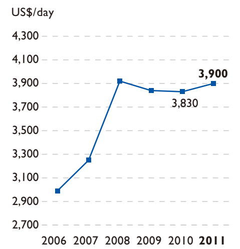
Handymax

10% Outperformance compared to market



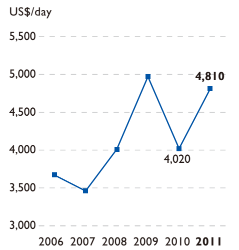
Handysize

$3,900 per day ▲ 2%



Handymax

$4,810 per day ▲ 20%



	Revenue Days and TCE (vs Market Indices)	Daily Opex Costs
Aim	To grow our Handysize and Handymax fleets to increase the revenue generation, flexibility and reliability of our core dry bulk business To maximise our daily earnings by leveraging: • the flexibility of our large uniform fleet • our scheduling and trade routes • the strength of our cargo book	To maintain competitive average daily ship operating expenses (opex)
Performance	Our Handysize average daily charter rates earned in 2011 outperformed the market index by 35% We operated an average of 90 Handysize and 39 Handymax ships in 2011, resulting in a 13% and 16% increase in our Handysize and Handymax ship revenue days respectively	Our owned vessel daily operating expenses increased in 2011 mainly due to higher crew wages and, for Handymax, also due to higher maintenance costs
Target	To grow our revenue days by expanding our owned and chartered fleet subject to cost, market developments and opportunities. One secondhand ship and 24 newbuildings are currently scheduled to join our fleet in 2012-2014 To be profitable in all market conditions, leveraging our competitive tonnage portfolio and solid cargo book so our daily earnings outperform market indices through the market cycle	To minimise escalation of our operating expenses at a time of significant wage inflation

p.30 Further analysis of PB Dry Bulk performance

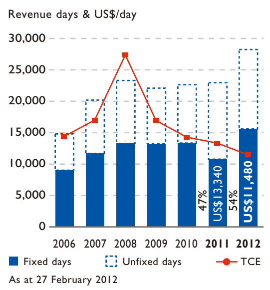
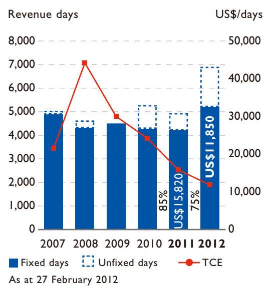
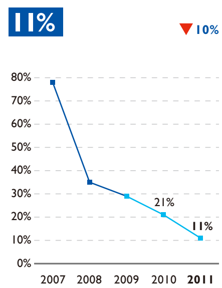
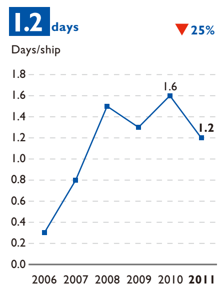
Strategic Objectives

- Astute investment of capital through well considered Handysize and Handymax fleet expansion and deployment
- Outperform our market and improve cost-competitiveness to maximise results, targeting >10% return on net assets
- Build deeper, broader customer relationships
- Enhance our industry-leading organisation and reputation, and the quality and reliability of ship operations
- Strive to have best people through investment in staff development and staff engagement

Dry Bulk KPIs

Our performance and progress against certain key divisional strategic objectives are measured by Key Performance Indicators as follows:

p.42 CSR Section – disclosure of our carbon emissions and other CSR KPIs

KPI	Cargo Cover and Rates	Return on Net Assets	Off-hire
	Handysize  **Handymax**  	 	
Aim	To grow our cargo book at profitable rates thereby locking in sustainable future earnings (This KPI is measured as at the time of our annual results announcement)	To deliver sustainable growth and a healthy return on our dry bulk division's assets (Segment reporting was adopted in 2009 and so Group return on net assets is shown for prior years for indication only)	To minimise our vessel down-time to support revenue maximisation and reliability of service to customers
Performance	We have covered 54% of our Handysize revenue days and 75% of our Handymax revenue days currently contracted for 2012 This 2012 cover has been secured at average rates of US$11,480 and US$11,850 respectively	A lacklustre dry bulk market impacted the division's net profits resulting in a still respectable 11% return on net assets	We achieved a competitive off-hire rate of 1.2 days per ship in 2011
Target	We seek to cover 50-55% of our Handysize revenue days for the year by the time of our annual results announcement	We target to deliver returns on net assets of at least 10% through the market cycle	We set ourselves an ambitious off-hire target of no more than 0.7 days per ship per year (excluding dry docking)

BUSINESS HIGHLIGHTS

We took several successful steps in our core dry bulk business in 2011 to move us closer to our vision for the Group. They relate mainly to the expansion of our dry bulk fleet and global presence, growing our customer base and relationships, and enhancing our efficiency both on shore and at sea.

- **Scale of our fleet** – We operated an average of 131 dry bulk ships (up from 114 in 2010), operating more short term chartered-in Handysize ships to profitably supplement our core fleet activity and to service our growing customer base. Since this time last year, we committed to purchase or long term charter in another 11 dry bulk ships, and we now await the delivery of one secondhand bulk carrier and 14 owned and nine chartered newbuildings in 2012 to 2014.

  Reflecting well on our strategic priority to grow our dry bulk fleet, the benefits of increasing scale continue to be apparent in our business and now enable us to provide customers with a truly global service. We do not see a limitation to what constitutes the optimum fleet size.

- **Strong global presence and customer relationships** – We now have 14 dry bulk offices (including ten chartering offices) across six continents, having opened new offices in Stamford and Durban to boost our growing Atlantic platform and a new presence in Beijing to enhance our Pacific network. This expansion of office network positions our chartering staff even closer to our North American, African and Chinese customers as we expand our fleet and activity globally, and generated an almost immediate effect on our long term cargo book. Approximately 40% of our business is now in the Atlantic, where the spot market generally has been stronger due to tighter availability of ships.

  We increased our activity in the parcelling and project cargo trades generating access to new customers and business opportunities for our ships, differentiating us from many of our bulk-focused competitors.

- **Efficiency initiatives** – Our new maritime operating system was implemented on time and within budget, and is already proving its value as an appropriately advanced IT platform to support our continued future fleet growth. We have achieved significant fuel savings through the in-house development and implementation of our Right Speed Programme to determine optimal operating speeds based on prevailing freight rates and fuel prices. Other such initiatives included cylinder lubrication optimisation, negotiation of block agreements with dry docks and the more economic bulk purchase of stores.

- **Other projects** – Our 115,000 dwt Post-Panamax newbuilding delivered in July and promptly commenced her 15-year charter to one of China's largest power producers. A 95,000 dwt Post-Panamax bulk carrier delivered into our long term chartered fleet in May and is relet on a back-to-back profit-share basis for the full 10-year charter period.

- **Handymax** – While our Handymax business is building a strong long term forward book and our earnings outperformed the market by 10%, our Handymax results were disappointing due to our reliance on relatively expensive short term chartered ships to perform lower priced long term cargo contracts. Results, particularly in the first half of the year, were also negatively impacted by the cost of repositioning a number of our vessels into more favourable locations, partly in response to the floods in Australia. We have started the process of growing our core fleet of low cost Handymax ships and expect to improve our Handymax margins as we become less reliant on short term chartered ships.

2012 MARKET OUTLOOK – DRY BULK

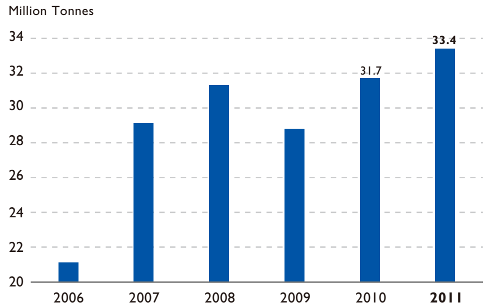
OPPORTUNITIES

- China's significant albeit slowing economic and industrial growth to support continued dependence on imported minor bulks
- Growth in China's dominant share of global bulk imports, driving further trade imbalance and fleet utilisation inefficiencies
- Continued high fuel prices and weak market to lead to increased adoption of slower steaming
- Increased levels of scrapping of older dry bulk capacity
- Severe bank lending constraints limit funding for ship acquisitions, raising barriers to entry and increasing opportunities for cash rich owners

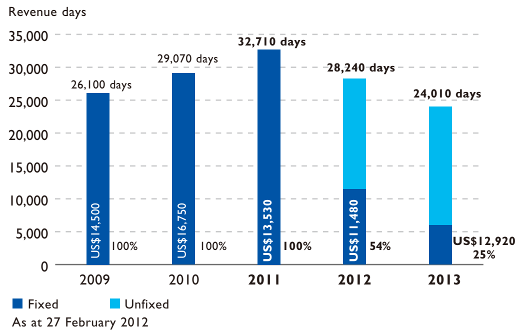
THREATS

- Continued excessive newbuilding deliveries for a third year in succession, despite expectations of a 35% delivery shortfall attributable to non-deliveries of expensive ships ordered in 2007/08 and shipyards slowing production to save costs
- Hesitant global economic recovery impacted by continued crisis in Europe
- Potentially weaker growth in Chinese economy and industrial production

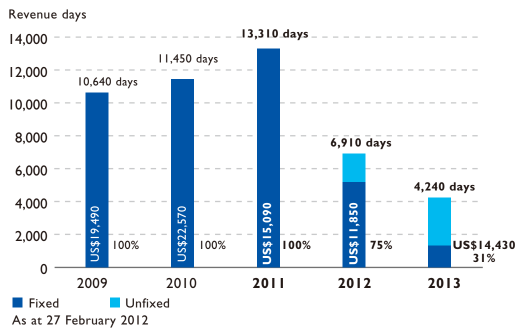
Pacific Basin Cargo Volumes



Handysize Contract Cover and Daily TCE



Handymax Contract Cover and Daily TCE



OUTLOOK FOR OUR DRY BULK BUSINESS

We anticipate the dry bulk market to remain weak during the first half of the year until a revival in activity provides scope for buoyancy in the second half. We expect freight rates will be weaker overall in 2012 as the market will likely struggle to absorb the continued influx of newbuilding deliveries at a time of uncertainty in the World economy.

Our exposure to a potentially weaker freight market is partly limited by our cargo book. We have contract cover in place for 54% and 25% of our Handysize revenue days in 2012 and 2013 respectively and we currently expect the majority of our uncovered 2012 revenue days will generate revenue from the spot market. We continue to build our forward cargo book for 2012 and beyond.

We remain committed to our strategy of directing new investment towards the further expansion of our dry bulk fleet – patiently awaiting the right opportunities at the right price – and we have the platform on which to grow organically through the acquisition of individual ships or fleets.

That platform draws its strength from:

- our growing global customer base
- our newly enhanced operating system and processes
- various on-going efficiency initiatives
- our expanded network of offices
- our strong balance sheet
- the value of our cargo book
- the leverage of our fleet's scale and flexibility

We are therefore well positioned to maximise our performance in the challenging period ahead whilst also well equipped to capitalise on opportunities that we expect to arise and eventual improvements in market conditions ahead.

Our market outlook for the longer term is positive, as we believe expanding wealth in emerging economies will generally strengthen demand for dry bulk commodities for some years while the newbuilding orderbook becomes less onerous from 2013 onwards. This combination should provide the dry bulk market with a more favourable supply/demand balance in the future.

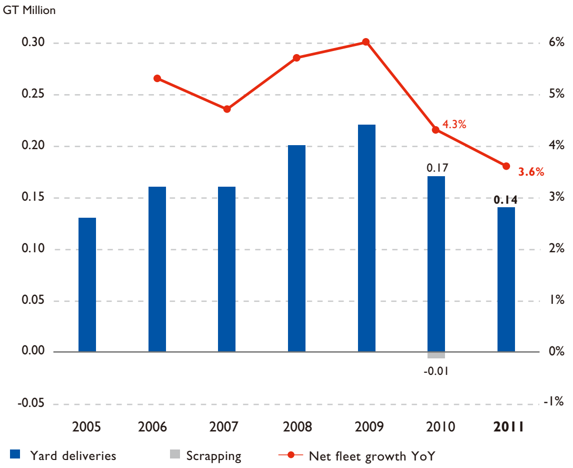
PB Energy & Infrastructure Services

(now renamed "PB Towage")

2011 TOWAGE MARKET REVIEW

The challenging market for both offshore and harbour towage services in 2010 gave way to significantly improved conditions in 2011.

Tug Fleet Development



Source: Clarksons, data as at February 2012

OFFSHORE AND INFRASTRUCTURE SUPPORT

The growth in Australian energy and resources development increased demand for offshore tug and barge activity during 2011. New coastal gas infrastructure projects commenced and existing projects such as the Gorgon offshore gas project were expanded, buoying requirements for marine logistics resources.

The Middle East markets remained difficult due to an excess supply of vessels and the impact of regional economic conditions and political instability on infrastructure development.

HARBOUR TOWAGE

Improved container line activity impacted positively on demand for harbour towage services at Australian container ports. Generally strong Chinese demand for resources sustained dry bulk port calls, although throughput at Townsville where we have an exclusive license was impacted by disruptions due to Cyclone Yasi and related floods early in the year.

SUPPLY

The global fleet of tugs grew 3.6% in 2011, down from 4.3% in 2010 due to an 18% decline in newbuilding deliveries.

HOW DID PB EIS PERFORM IN 2011?

Our PB Energy & Infrastructure Services (PB EIS) division (now renamed "PB Towage") generated a net profit of US$10.8 million and an operating cash flow of US$29.0 million, reflecting a turnaround year for our towage business which contributed a net profit of US$15.2 million – more than offsetting the operating loss generated early in the year by our FBSL joint venture in the Middle East.

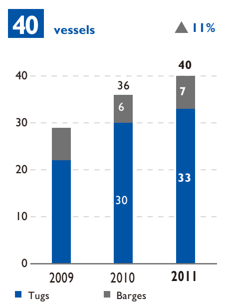
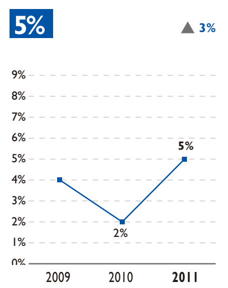
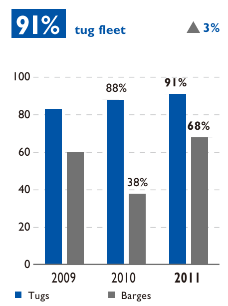
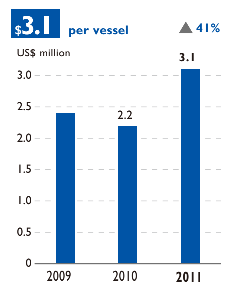
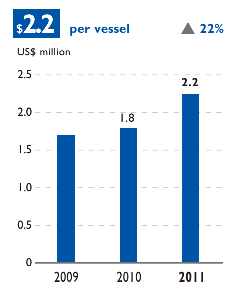
PB EIS net profit	US$10.8m
PB Towage PacMarine Service FBSL	US$15.2m US$0.7m US$(5.1)m
Operating cash flow	US$29m
Return on net assets	5%

Strategic Objectives

- Astute investment of capital through well considered business growth and fleet expansion and deployment
- Improve cost competitiveness to maximise results and deliver strong, sustainable returns to shareholders
- Build deeper, broader customer relationships
- Enhance our organisation, systems, processes and reliability
- Strive to have the best people

EIS KPIs

Our performance and progress against certain key divisional strategic objectives are measured by Key Performance Indicators as follows:

KPI	Vessel number operated	Return on Net Assets	Percentage of Fleet Deployed	Vessel Revenue	Vessel Costs
					
Aim	To grow our tug and barge fleet in line with market opportunities, enhancing revenue generation and economies of scale	To provide sustainable, acceptable returns to shareholders	To minimise our vessels' idle downtime and maximise deployment and revenue	To maximise average annual revenue generated by each of our deployed vessels (tug or barge)	To maintain a competitive, low average annual cost per vessel
Performance	In 2011, we purchased two tugs and sold one. Our towage fleet comprised on average 33 tugs and 7 barges – sufficient to cover PB Towage's immediate requirements	Improved net profits of US$10.8 million generated a return on net assets of 5% in 2011 (10% in the second half), up from 2% in 2010	Deployment of PB Towage's tugs increased from 88% in 2010 to 91% in 2011 while barge deployment increased from 38% to 68%	Our fleet of deployed tugs and barges generated average revenue of US$3.1 million per vessel in 2011 – up 41% year on year	Our vessel costs increased 22% to US$2.2 million due to a 27% increase in operating expenses (mainly crewing and maintenance)
Target	Further investment will depend on future project awards and business expansion, with assets sourced to fit specific business opportunities	To generate returns on net assets of at least 10%	To achieve over 95% deployment of our tugs in 2012	To improve our revenue performance further in 2012	To limit annual escalation of our daily vessel costs to less than CPI, and to limit operating expense inflation to 5% maximum

p.31 Further analysis of PB EIS Performance

Group Overview
Business Review
Financial Review
CSR Report
Governance
Financial Statements

BUSINESS HIGHLIGHTS

Our energy and infrastructure services division had a much better year with its main business, PB Towage, progressing strongly and demonstrating the increasing value of our strategic diversification into the harbour and offshore towage support sectors pre-2008.

- **Australasian offshore and infrastructure projects on the rise** – Having positioned itself as a leading sub-contractor to the Australasian offshore construction markets, PB Towage was able to capitalise on a buoyant projects market, including increased activity from the Chevron-led Gorgon offshore gas project in Western Australia, commencement of activities on BG's Queensland Curtis LNG (QCLNG) project in Gladstone and various coastal projects. We now have nine vessels committed to Gorgon and six vessels deployed on QCLNG.

- **Middle East market challenges** – Our FBSL joint venture successfully completed the Northern Project in the first half of the year and, in view of the severely limited prospects for profitable new projects, closed its operations in June and sold its assets. PB Towage's secondary activities in the Middle East recovered quicker than expected from the loss of FBSL business, achieving respectable utilisation despite a generally unfavourable Middle East market and strong competition.

- **Harbour towage improves on increased market share** – Despite early service disruptions in Townsville following Cyclone Yasi, PB Towage's harbour business moved into profitability primarily due to increased market share in Australian container ports following customer successes and increased charter opportunities despite strong competition. PB Towage vessels including our bunker tanker "Awanuia" supported salvors with the removal of fuel and containers from the containership "Rena" which ran aground near Tauranga in October. We are proud and privileged to have assisted in significantly limiting the oil pollution caused by this incident which was declared New Zealand's worst maritime environmental disaster.

- **Initiatives to strengthen its organisation** – PB Towage implemented initiatives during the year to optimise its vessels' deployment and enhance its human resources, operations and safety, quality, health and environment (SQHE) systems and processes.

- **PacMarine sold** – Our marine surveying and consultancy subsidiary PacMarine Services expanded its global network in 2011. Since the year end, we have sold the business to PacMarine management.

Division name change – In view of the closure of FBSL, the sale of PacMarine and the now exclusive focus on its towage activities, the name of this Pacific Basin division has been changed from "PB Energy & Infrastructure Services" to "PB Towage" with effect from 1 January 2012.

2012 MARKET OUTLOOK – TOWAGE

OPPORTUNITIES

- High oil prices buoying demand for new fuel sources
- Demand for cleaner, safer fuels
- Continued recovery in the Australian projects market as Australia strives to become a major LNG exporter
- Further improvement in Australian port activity

THREATS

- Hesitant global economic recovery casts uncertainty over commodity exports and port activity
- Potential decline in Chinese industrial production impacting Australian commodity exports and port activity
- Expanding competition especially in the Middle East
- Ongoing labour market cost pressures

OUTLOOK FOR OUR TOWAGE BUSINESS

We anticipate last year's improvement in the Australasian offshore project and harbour towage markets will continue in 2012, and we consider ourselves well placed to participate in the increasing activity in this sector, drawing on:

- our now well established profile and reputation in our main Australasian market
- on-going enhancements to our organisation in areas of human resources, SQHE, operations and systems
- access to Pacific Basin's strong balance sheet allowing for further investment in our towage fleet as specific projects materialise
- our growing fleet of well-specified vessels supported by a high-quality team
- a new business alliance with US-based Crowley Solutions Group to broaden our activities into Southeast Asia and Oceania

PB Towage has started the year with good earnings cover for 2012.

2011 RORO MARKET REVIEW

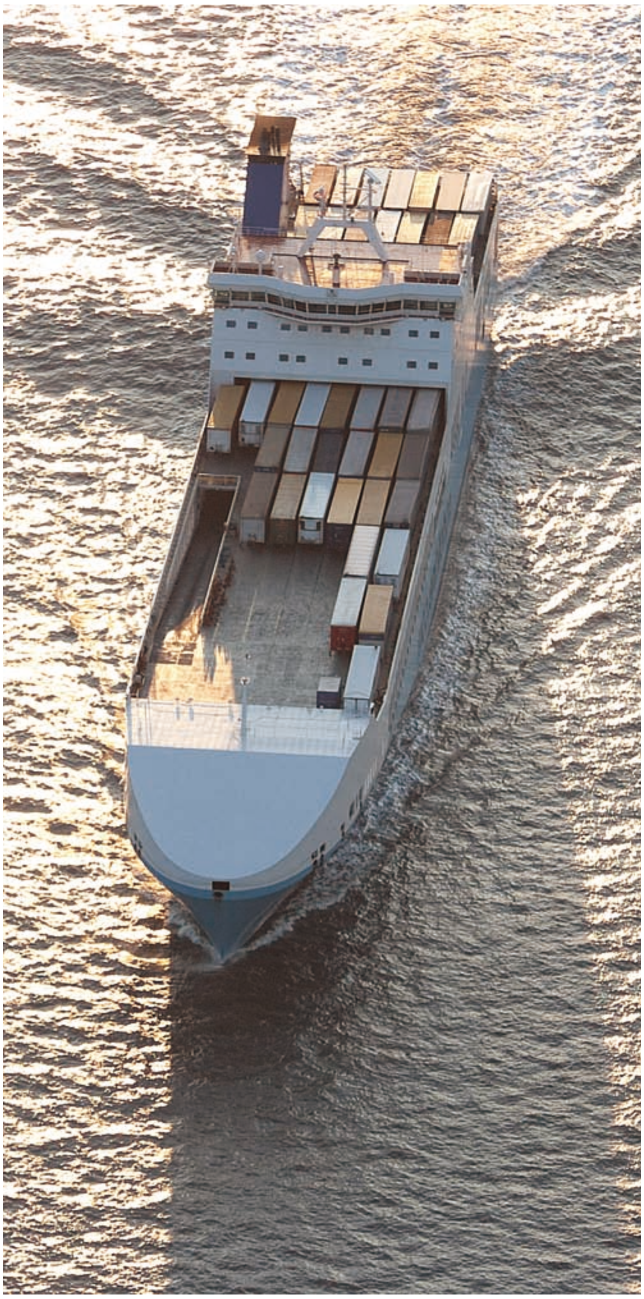
The muted recovery in European freight activity in 2010 and early 2011 has since stalled due to the severe and ongoing economic problems in the Eurozone. Seaborne trailer volumes remain well below pre-recession levels and demand from freight ferry operators for additional chartered RoRo ships is limited.

Underlying demand varied between areas with some recovery apparent during 2011 in the Baltic trades and more recently across the Irish Sea. Demand in cross-Mediterranean trades was restricted early in the year by political events in North Africa but has since recovered in some countries – notably Tunisia – on renewed stability.

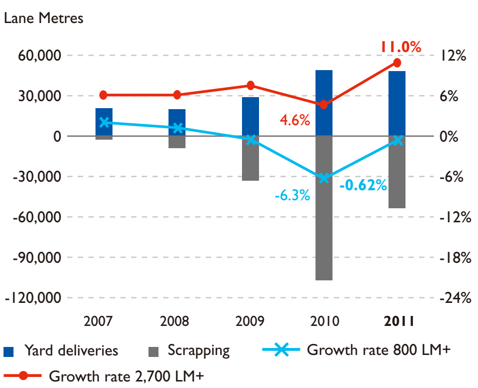
While overall supply of freight RoRo capacity shrank by a marginal 0.6% during 2011, the fleet of large RoRo ships of the type we operate (over 2,700 lane metres) grew by a significant 11%, driven by the influx of some 44,300 lane metres of new capacity ordered prior to the financial crisis. Of 53,600 lane metres of capacity scrapped, only 15,400 lane metres were large RoRos due in part to relatively few such vessels reaching critical special survey deadlines during the year.

The net effect was further weakening in the market for large RoRo vessels, with rates falling and surplus tonnage competing strongly for the limited employment opportunities that arose.

As in the previous two years, very few RoRo newbuildings were ordered in 2011 – limited to specialised vessels intended for specific deep-sea or niche trades rather than for deployment on mainstream trailer services. As at 1 January 2012, the total RoRo orderbook amounted to 96,300 lane metres, or about 11% of the existing fleet. Of these, 77,200 lane metres were attributable to large RoRo (with a 21% orderbook), but this will decline rapidly over the coming 18 months when most of these vessels deliver.

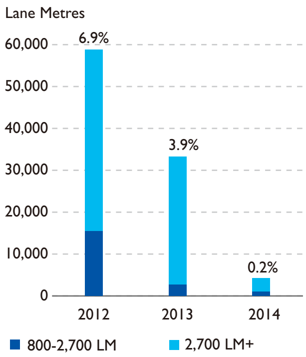


RoRo Fleet Development



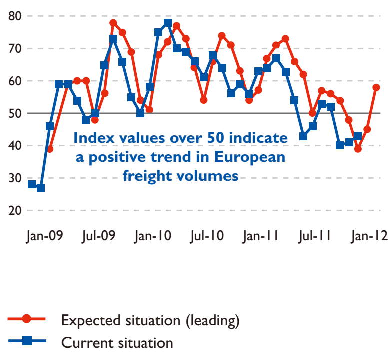
Source: Navitaship, data as at 1 January 2012

RoRo Orderbook: 11.2%
32 Vessels (96,313 Lane Metres)



Source: Navitaship, data as at 1 January 2012

European Freight Forwarding Index



Source: Danske Bank

HOW DID PB RORO PERFORM IN 2011?

Our PB RoRo division generated a net loss of US$10.6 million (2010: US$1.1 million loss) and an operating cash flow of US$7.5 million in a very difficult year due to continued depression in the Euro-centric RoRo market and the suspension of the NGB service.

PB RoRo net profit	**US$(10.6)m**
Operating cash flow	**US$7.5m**
Return on net assets	**-3%**

Strategic Objectives

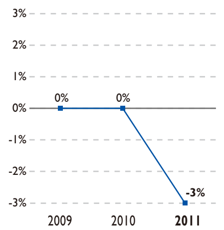
- Improved returns from deployed capital, securing the best possible employment and minimising losses
- Build deeper, broader customer relationships
- Enhance our reputation for safe and reliable RoRo tonnage provision
- Strive to have the best people

RoRo KPIs

Our performance and progress against certain key divisional strategic objectives are measured by Key Performance Indicators as follows:

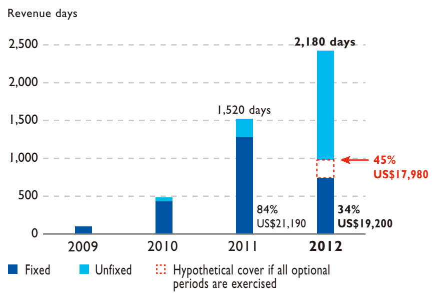
KPI | **Return on Net Assets** | **Fleet Utilisation** | **Earnings Cover**

-3%



84% utilisation

2012 cover **34%**



Note: As at 27 February 2012

Charter rates earned in Euros are translated to US Dollars at an indicative rate of EUR1.00 to US$1.295

	Return on Net Assets	Fleet Utilisation	Earnings Cover
Aim	To deliver stable and acceptable returns on investment to our shareholders	To maximise periods of employment (high utilisation) generating stable medium to long term earning streams by being the tonnage provider of choice to RoRo operators	To secure an acceptable level of forward earnings cover through long term time charters to quality RoRo ferry operators
Performance	Weak RoRo charter market and suspension of the NGB service resulted in operating losses of US$10.6 million and return on net assets of -3% Declining vessel values and the challenging employment outlook necessitated an US$80 million impairment of our RoRo investment	Our RoRo fleet recorded 84% utilisation in 2011 with its ships on charter for 1,270 out of a total 1,520 ship revenue days and generating average daily charter rates of US$21,190 despite a very weak charter market	Earnings cover is currently in place for 34% of our RoRo capacity in 2012 at an average rate of US$19,200 per day If all optional charter periods are exercised, earnings cover would increase to 45% at an average rate of US$17,980 per day
Target	To secure the best possible employment to minimise losses and improve returns through higher fleet utilisation and cost control measures	Priority to improve fleet utilisation, pursuing opportunities in the established European markets and new trades worldwide	To accept shorter term earnings cover in the current depressed market, and secure longer term employment at higher rates when market conditions improve

p.31 Further analysis of PB RoRo performance

BUSINESS HIGHLIGHTS

Our RoRo division faced challenging circumstances, with the last three of our RoRo newbuildings delivering into a very weak charter market.

- **Completion of RoRo newbuilding programme** – Our final two RoRo ships delivered from Odense Steel Shipyard in Denmark in August 2011 and January 2012 respectively, bringing the fleet to six large, modern, fuel-efficient vessels.
- **Employment of our earlier ships** – Our first RoRo is still operating in the North Sea on charter to DFDS at a strong rate negotiated prior to the recession, and will continue to do so until the third quarter 2012. Her sistership which delivered in March 2011 traded satisfactorily in the Mediterranean on a one year time charter which has since been renewed, albeit at a low rate reflecting the weak market.
- **Nafta Gulf Bridge suspended** – Despite its potential, the Nafta Gulf Bridge service between Mexico and the US Gulf failed to generate sufficient cargo support, resulting in the suspension of the service in early October. We were able to redeploy our two US Gulf-based RoRo's on short term business in the region, but longer term employment for these remains a challenge.
- **Full focus given to chartering effort** – Our RoRo team was engaged in a major drive to secure satisfactory employment for our fleet in 2011, but underlying trailer freight demand remained insufficient to revive the weak RoRo charter market. With our final two ships seeking employment and charters for three of our other RoRo's expiring this year, our priority for 2012 is to secure the best possible employment for our ships.
- **Reassessment of RoRo prospects led to impairment in mid-2011** – In the second quarter, the much weaker outlook for the RoRo charter market gave us concern about the ability to deploy our RoRo vessels profitably, which reduced their value-in-use to below their carrying values on our balance sheet. Consequently, an impairment of US$80 million for all six vessels was charged to our Group results. In calculating the value-in-use, we conservatively assumed that the RoRo charter market will continue to be weak for the coming two to three years before improving to and stabilising at rates approaching pre-financial crisis levels. After the impairment charge in mid-2011, carrying values of our RoRo's were adjusted with reference to brokers' indicative market value estimates. This impairment is not allocated to PB RoRo segment results as it does not relate to the division's underlying operations. However, the impairment does reduce the carrying value of the Group's assets.

2012 MARKET OUTLOOK – RORO

OPPORTUNITIES

- Increased levels of scrapping of older ships to reduce over-capacity
- High fuel prices to make our modern fuel-efficient vessels more attractive
- Continued albeit limited development of new RoRo trades both in Europe and elsewhere

THREATS

- Continuing economic crisis and increased austerity in Europe, albeit moderated by positive steps to repair economy later in the year
- Weak intra-European trade
- Limited growth in trailer volumes
- Significant deliveries of large freight RoRo newbuildings scheduled in 2012
- Excess capacity among most European RoRo operators leading to only limited requirement for chartering third-party vessels
- Hesitant global economic recovery

OUTLOOK FOR OUR RORO BUSINESS

We expect the charter market for RoRo ships to remain weak throughout 2012 due to the further influx of newbuilding deliveries, overall muted growth in freight volumes and an anaemic European economy.

We therefore anticipate another very challenging loss-making year for our RoRo business. Our priority for 2012 is to secure best possible charters, improve utilisation and implement stringent cost control to minimise losses until the market recovers, with no plans to invest in expansion of our RoRo fleet.

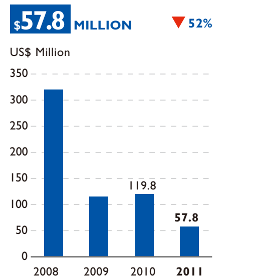
Looking further ahead, an end to the current wave of newbuilding deliveries in 2013, coupled with eventual European economic recovery and the development of new RoRo trades support a much more positive outlook for our RoRo business in the longer term.

Financial Review

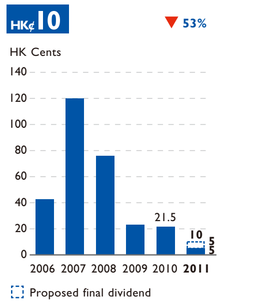
GROUP KPIs

We measure our Group's progress in part through four financial Key Performance Indicators aligned to our strategy.

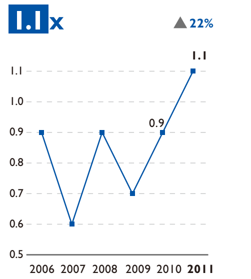
KPI: Underlying Profit



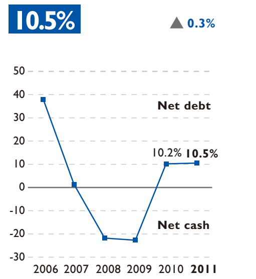
KPI: Dividend per Share



KPI: Operating Cash to EBITDA



KPI: Gearing on NBV



KPI	Underlying Profit	Dividend per Share	Operating Cash to EBITDA	Gearing on NBV
Aim	To maximise our financial results in the form of Underlying Profit, being the Group's net profit excluding mark-to-market of derivatives and other exceptional items	To pay out in dividends at least 50% of annual attributable profit excluding disposal gains	Operating cash flow should be 0.9 times our EBITDA so as to fund a significant proportion of the capital expenditure required to grow our owned fleet	To maintain group net borrowings to Net Book Value ("NBV") of property, plant and equipment under 50%, and considerably less in a weak shipping market
2011 Performance	Underlying profit decreased 52% mainly due to a 24% decrease in daily charter earnings of our dry bulk ships, balanced only in part by 17% lower blended daily vessel operating costs	Dividend per share was down 53% due to the decrease in profit eligible for dividends, but our strong operating cash flow allowed us to increase the pay-out level to 78%	Our ratio reflected the benefit of chartered-in vessel rates that are market appropriate and have not resulted in onerous charter contract provisions which have the effect of reducing this ratio when such provisions are released to EBITDA	10.5% is well below our peak level mainly due to our substantial cash resources

P.42 CSR Report – non-financial KPIs

We consider our environmental and workplace initiatives to be closely aligned with delivering our Group strategy

Consolidated Group Performance

GROUP PERFORMANCE REVIEW

US$ Million	2011	2010	Change
Revenue	1,342.5	1,268.5	+6%
Direct costs	(1,234.9)	(1,109.2)	+11%
Gross profit	107.6	159.3	-32%
Segment net profit	78.9	146.3	-46%
Underlying profit	57.8	119.8	-52%
Profit attributable to shareholders	32.0	104.3	-69%
Operating cash inflow	159.4	198.6	-20%
Net profit margin	2%	8%	-6%
Return on average equity employed	2%	7%	-5%

Underlying profit

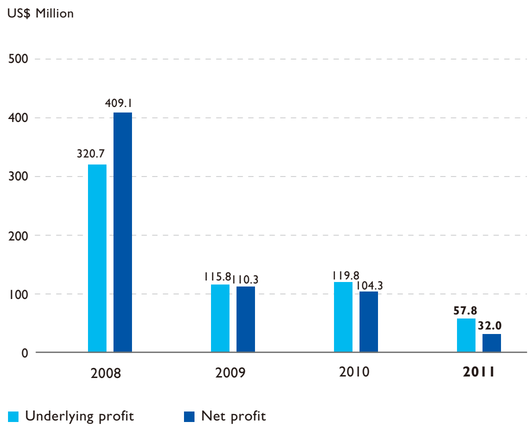
Includes:
- Segment results
- Treasury results
- Indirect general and administrative expenses

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

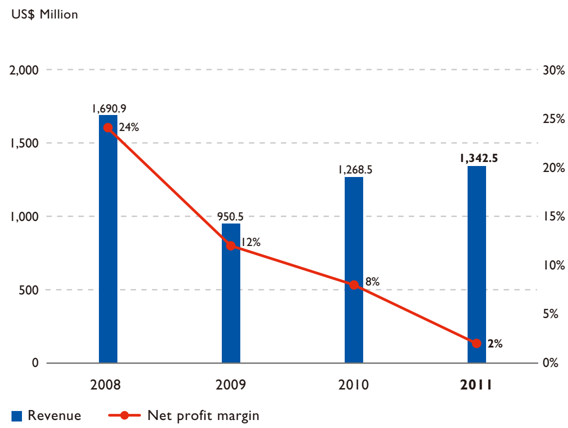
The main influences on our 2011 results were as follows:

- **Revenue** increased 6% mainly due to improved performance of our harbour towage and offshore and project supply activities.
- **Underlying profit** was down mainly due to a 24% decrease in daily charter rates of our dry bulk vessels, only partly offset by a 17% decrease in blended daily vessel operating costs.
- **Profit attributable to shareholders** was lower mainly due to:
  - i) an US$80 million impairment of our RoRo vessels;
  - ii) unrealised derivative expenses of US$1.6 million (2010: US$12.4 million) from reduced average oil prices applicable to our forward bunker commitments; offset by
  - iii) a US$55.8 million (2010: US$16.0 million) gain from the sale of our remaining shares in Green Dragon Gas Limited.
- **Operating cash inflow** was US$159.4 million (2010: US$198.6 million). The Group used a net US$201.4 million (2010: US$558.7 million) of cash after funding capex and net debt flows, leaving US$618.2 million (2010: US$703.4 million) of cash and deposits at the year end.

Group Underlying and Net Profit



Group Revenue and Net Profit Margin



SEGMENTS REVIEW

Reconciliation of segment net profit to profit attributable to shareholders

US$ Million	2011	2010
Segment net profit	**78.9**	146.3
Treasury	**(12.8)**	(18.5)
Indirect general and administrative expenses	**(8.3)**	(8.0)
Underlying profit	**57.8**	119.8
Unrealised derivative expenses	**(1.6)**	(12.4)
Fujairah Bulk Shipping impairment charge	**–**	(19.1)
RoRo vessels impairment charge	**(80.0)**	–
Gain from sale of shares in Green Dragon Gas	**55.8**	16.0
Profit attributable to shareholders	**32.0**	104.3

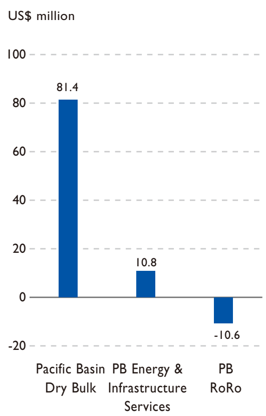
Management analyses the Group's performance in three shipping-related reporting segments:

- Pacific Basin Dry Bulk
- PB Energy & Infrastructure Services
- PB RoRo

Non-segment activities mainly comprise Treasury.

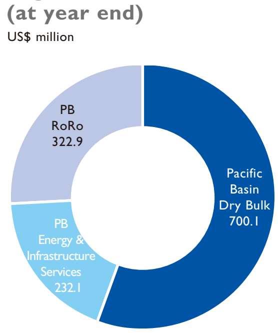
Pacific Basin Dry Bulk continues to dominate the Group's activities. The following sections provide further analysis of the Group's results and net assets.

2011 Segment Net Profit



Return on Net Assets	11%	5%	-3%

Segment Net Assets (at year end)



PACIFIC BASIN DRY BULK SEGMENT

Segment operating performance

		1H11	2H11	2011	2010	Change
Handysize						
Revenue days		14,620	18,090	32,710	29,070	+13%
Daily charter rates earned	(US$)	13,660	13,420	13,530	16,750	-19%
Daily vessel operating costs	(US$)	10,640	10,710	10,680	11,970	-11%
(US$ Million)						
Net profit		42.9	46.9	89.8	136.1	-34%
Operating cash flow		67.0	76.4	143.4	186.8	-23%
Net assets		655.9	564.1	564.1	619.1	-9%
Return on net assets	(% p.a.)	13%	17%	16%	22%	-6%
Handymax						
Revenue days		6,390	6,920	13,310	11,450	+16%
Daily charter rates earned	(US$)	15,130	15,050	15,090	22,570	-33%
Daily vessel operating costs	(US$)	16,190	15,520	15,840	21,690	-27%
(US$ Million)						
Handymax net (loss)/profit		(7.5)	(3.9)	(11.4)	8.8	-228%
Contribution from Post Panamax		0.3	2.7	3.0	–	–
Net (loss)/profit		(7.2)	(1.2)	(8.4)	8.8	-194%
Operating cash flow		(5.5)	0.2	(5.3)	11.5	-146%
Net assets		133.7	136.0	136.0	104.0	+31%
Return on net assets	(% p.a.)	(11%)	(2%)	(6%)	8%	-14%

Note: The above Handymax revenue days and daily rates exclude two vessels which are on long term charter at a daily rate of US$8,750 and for which the daily vessel cost at US$9,480.

INCOME

Revenue generated by our dry bulk fleet increased 2.2% to US$1,195.0 million (2010: US$1,169.4 million) which represents 89.1% (2010: 92.4%) of our Group's total segment revenue.

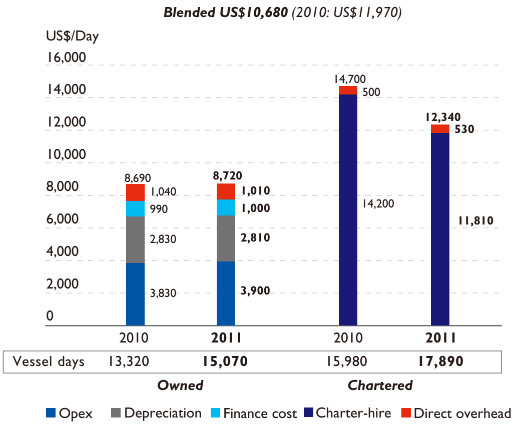
Our fleet of owned and finance leased dry bulk vessels experienced average off-hire of 1.2 days (2010: 1.6 days) per vessel during the year.

DIRECT COSTS

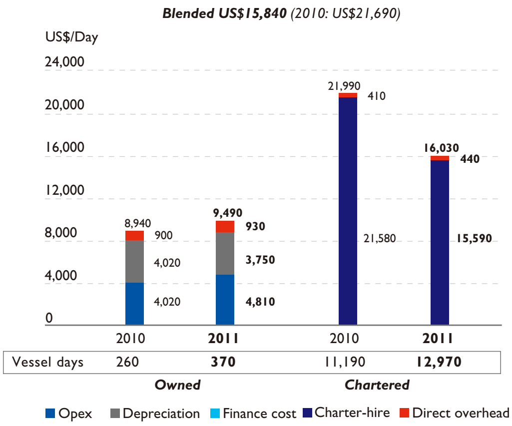
Our dry bulk fleet incurred direct costs of US$562.3 million (2010: US$593.0 million) representing 81.5% (2010: 87.6%) of total segment direct costs. The majority of the decrease in direct costs was attributable to charter-hire expenses for operating lease vessels which decreased to US$421.0 million (2010: US$471.7 million), reflecting a 22.3% decrease in the average daily charter rate of Handysize and Handymax vessels chartered in by the Group under operating leases.

The blended daily operating cost of owned and chartered vessels decreased by 10.8% for Handysize and by 27.0% for Handymax due to lower market chartered-in costs. Owned vessel daily operating costs for Handysize and Handymax increased mainly due to increases in crew wages and, for Handymax, also due to higher maintenance costs. Owned vessel daily operating costs relate to crew, spares, lubricating oil and insurance. Direct overheads represent shore-based staff, office and related expenses directly attributable to the management of the Pacific Basin Dry Bulk segment.

Daily Vessel Costs – Handysize



Daily Vessel Costs – Handymax



PB ENERGY & INFRASTRUCTURE SERVICES SEGMENT

The Group's PB Energy & Infrastructure Services segment was primarily engaged through PB Towage in offshore and project supply and harbour towage.

		1H11	2H11	2011	2010	Change
PB Towage						
Vessels operated	(Number)	39.2	41.0	40.1	35.9	+12%
Revenue per vessel	(US$ Million)	1.4	1.7	3.1	2.2	+40%
Cost per vessel	(US$ Million)	1.1	1.1	2.2	1.8	+23%
(US$ Million)						
PB Towage		3.5	11.7	15.2	1.0	+1,420%
PacMarine Service		0.5	0.2	0.7	1.0	-30%
Fujairah Bulk Shipping		(5.2)	0.1	(5.1)	2.9	-276%
Segment net (loss)/profit		(1.2)	12.0	10.8	4.9	+120%
Segment operating cash flow		10.9	18.1	29.0	16.8	+73%
Segment net assets		234.0	232.1	232.1	229.4	+1%
Return on net assets		-1%	+10%	+5%	+2%	+3%

PB Towage's results improved significantly due to increased liner port calls in the harbour towage sector and growth in offshore and project supply activities.

PacMarine Services engages in the business of ship survey and inspection service and it's results reflected a decrease in the number of ship inspections.

Fujairah Bulk Shipping is a joint venture with the Government of Fujairah in the Middle East. Due to continuing difficult market conditions, the board of Fujairah Bulk Shipping decided in 2011 to close its operations, and all its assets have now been sold.

PB RORO SEGMENT

The Group's first RoRo vessel began generating revenue in September 2009. The second vessel trades in the Mediterranean, while the third and fourth RoRo vessels are operating in the US Gulf albeit at disappointing rates reflecting the weak market. We are still seeking employment for our final two RoRo vessels which delivered in August 2011 and January 2012.

The US$80 million vessel impairment is estimated to reduce daily depreciation by approximately EUR850 or US$1,200 in 2012 for each of the six RoRo vessels.

		1H11	2H11	2011	2010	Change
Revenue days		620	650	1,270	430	+195%
Vessel days		660	860	1,520	480	+217%
Daily charter rates earned	(US$)	21,240	21,140	21,190	29,350	-28%
Daily vessel operating costs	(US$)	22,080	18,210	19,890	27,810	-28%
(US$ Million)						
Vessel operating loss		(1.4)	(2.0)	(3.4)	(0.8)	+325%
Share of loss of associate		(4.1)	(3.4)	(7.5)	(0.3)	–
Share of profit of jointly controlled entity		0.2	0.1	0.3	–	–
Segment net loss		(5.3)	(5.3)	(10.6)	(1.1)	+864%
Segment operating cash flow		4.5	3.0	7.5	2.8	+168%
Segment net assets		347.6	322.9	322.9	384.4	-16%
Return on net assets		-3%	-3%	-3%	0%	-3%

Funding and Commitments

CASH FLOW AND CASH

The Group actively manages its cash, borrowings and commitments closely to ensure sufficient funds are available and an appropriate level of liquidity is maintained during different stages of the shipping cycle to meet all its obligations.

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

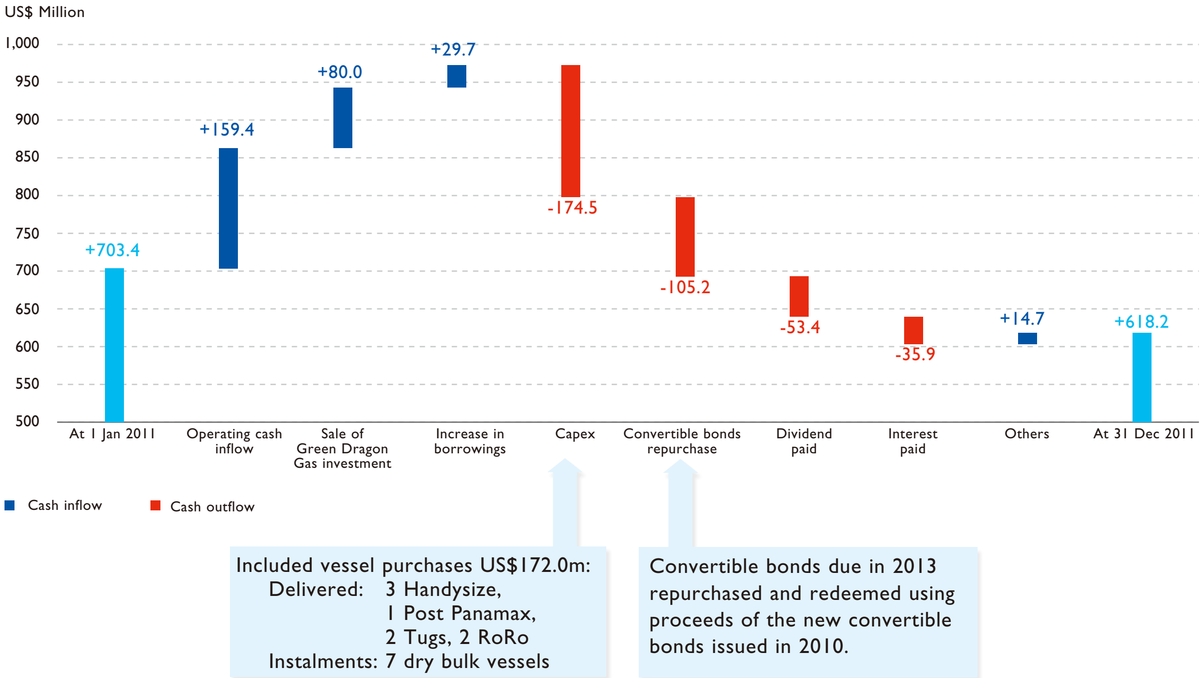
As at 31 December 2011, the Group had a strong cash position of US$618.2 million resulting in a 10.5% gearing ratio of net borrowings to Net Book Value of property, plant and equipment. Based on existing capital commitments of US$322.4 million, the Group has sufficient cash resources on hand to fund these commitments.

Over the long term, the Group aims to maintain group net gearing at no greater than 50%, which represents a conservative balance of borrowings and equity that is sustainable over different stages of the shipping cycle.

CASH FLOW

Liquidity	US$618.2 million of cash and deposits (principally denominated in US$) US$116.6 million of unutilised bank borrowing facilities
Net working capital	US$582.3 million

2011 Sources and uses of Group Cash Flow



Purchase and sale of vessels, and drawdown and repayment of borrowings shall continue to be the major factors influencing future cash flows.

CASH AND DEPOSITS

The Group's cash re sources are managed by the treasury function as part of the Group's ordinary activities.

Treasury's objective is to enhance income through investing in a mix of financial products, based on the perceived balance of risk, return and liquidity, while ensuring that cash can be deployed to meet the Group's commitments and needs. Cash and deposits are placed with a range of leading banks, mainly in Hong Kong.

Treasury may invest in products and up to amounts specified in the Board-approved Group Treasury Policy. These include overnight and term deposits, money market funds, liquidity funds, structured notes, and currency linked deposits.

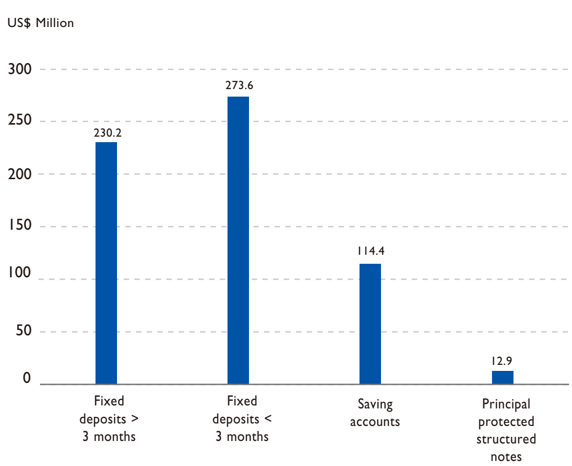
The split of current and long term cash, deposits and borrowings is presented as follows:

US$ Million	2011	2010	Change
Restricted bank deposits – non-current assets	**8.6**	10.3	
Restricted bank deposits – current assets	**11.2**	3.4	
Cash and deposits	**598.4**	689.7	
Total cash and deposits	**618.2**	703.4	-12%
Current portion of long term borrowings	**(65.3)**	(165.7)	
Long term borrowings	**(713.7)**	(693.8)	
Total borrowings	**(779.0)**	(859.5)	-9%
Net borrowings	**(160.8)**	(156.1)	+3%
Net borrowings to Net Book Value of property, plant and equipment	**10.5%**	10.2%	
Net borrowings to shareholders' equity	**10.8%**	10.1%	

During the year, Treasury achieved an average return of 1.8% (2010: 1.5%) per annum on the Group's cash.

At 31 December 2011, the Group's cash and deposits and structured notes were placed in the following investment products:

Cash and Deposits Investments
Balance at 31 Dec 2011 (Total Cash & Structured Notes = US$631.1m)



BORROWINGS

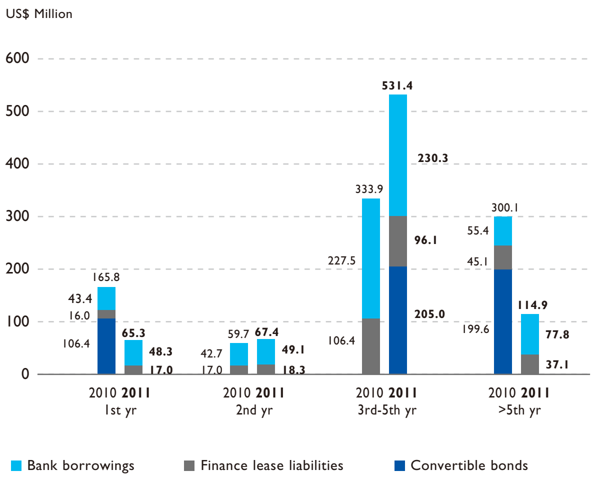
The Group's treasury function arranges financing by leveraging the Group's balance sheet to optimise the availability of cash resources to the Group. Borrowings comprise:

- Bank borrowings
- Finance lease liabilities
- The debt element of convertible bonds

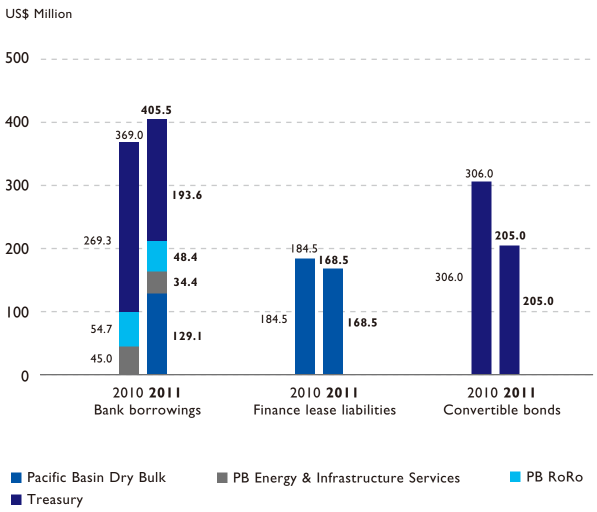
The aggregate borrowings of the Group amounted to US$779.0 million (2010: US$859.5 million). They are principally denominated in United States Dollars, except for bank loans equivalent to US$106.0 million (2010: US$54.7 million) and US$34.4 million (2010: US$39.7 million) which are denominated in Euro and Australian Dollars respectively.

Funding and Commitments

Borrowings by Maturity & Source



Borrowings by Source and Segment



BANK BORROWINGS

Bank borrowings (net of deferred loan arrangement fees) were US$405.5 million (2010: US$369.0 million) at 31 December 2011. It increased as loans secured on RoRo vessels were drawndown during the year.

The Group's bank borrowings were secured by mortgages over 32 vessels with a total net book value of US$548.5 million and an assignment of earnings and insurances in respect of these vessels.

Bank borrowings are in the functional currency of the business segment to which they relate.

The Group monitors the loans to asset value requirements on its bank borrowings. If the market values of the Group's mortgaged assets fall below the level prescribed by our lenders, the Group pledges additional cash or offers additional unmortgaged vessels as collateral to them. As at 31 December 2011, the Group was in compliance with all its loans to asset value requirements.

At 31 December 2011, the Group has unutilised bank borrowing facilities of US$116.6 million.

P/L impact:	*The increase of US$4.3 million in interest on bank borrowings to US$14.1 million in 2011 was due to an increase in average bank borrowings to US$465.6 million (2010: US$374.2 million). Bank borrowings are subject to floating interest rates but the Group manages these exposures by way of entering into interest rate swap contracts.*

FINANCE LEASE LIABILITIES

Finance lease liabilities decreased following scheduled repayments during the year. Finance lease liabilities are allocated to the segment in which the asset is owned.

Aggregate current and long term finance lease liabilities at 31 December 2011 were US$168.5 million relating to 13 Handysize vessels expiring between 2015 and 2017. The fixed, equal, quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities on the balance sheet and finance charges in the income statement. Finance charges can be expressed as interest rates, fixed for the period of the leases.

P/L impact:	*Finance charges of US$12.1 million (2010: US$13.2 million) represent interest payments on Handysize vessels under finance leases.*

CONVERTIBLE BONDS

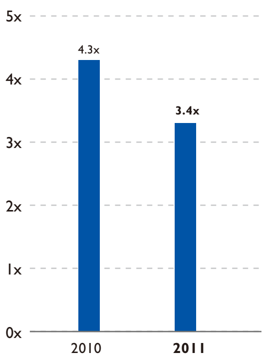
The debt component of the Group's convertible bonds decreased as a result of the repurchase and cancellation during the year of the original 3.3% coupon 2013 convertible bonds, leaving only the 1.75% coupon 2016 convertible bond on the balance sheet at 31 December 2011.

P/L impact:	*The decrease of US$10.7 million in interest for convertible bonds to US$10.0 million in 2011 was due to their lower aggregate outstanding value at the year end.*

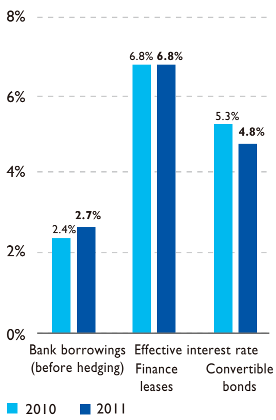
FINANCE COSTS

The key indicators on which Management focuses to assess the cost of borrowings are: i) group interest coverage and ii) average interest rates on borrowing sources.

Group Interest Coverage



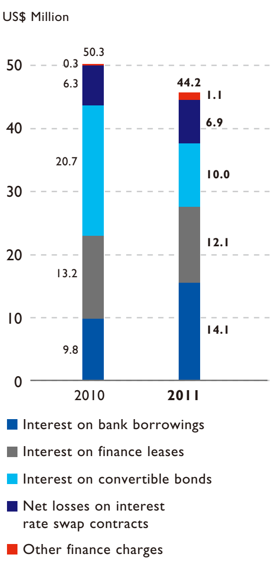
Average Interest Rates on Borrowings



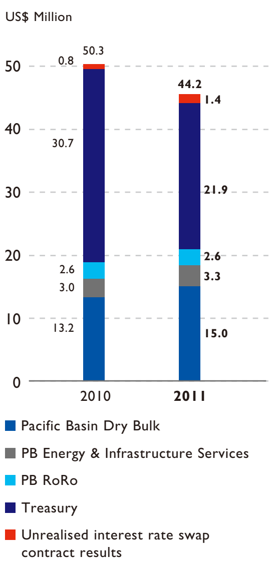
The Group aims to achieve a balance between floating and fixed interest rates on its long term borrowings. As at 31 December 2011, 15% of the Group's long term borrowings were in floating rates. The Group monitors this to maintain an appropriate floating to fixed interest rate ratio which is adjusted from time to time depending on the shipping and interest rate cycles.

Borrowings resulted in finance costs of US$44.2 million (2010: US$50.3 million) which are analysed as follows:

Finance Costs by Source



Finance Costs by Segment



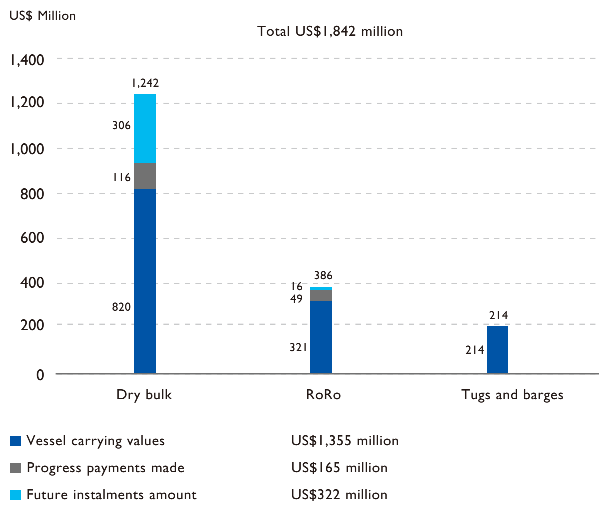
DELIVERED VESSELS

At 31 December 2011, the Group had property, plant and equipment with net book value (after RoRo impairment) of US$1,525.2 million, of which mostly related to:

- 42 delivered Handysize vessels;
- 2 Handymax vessels;
- 1 Post Panamax vessel;
- 38 tugs and barges; and
- 5 RoRo vessels.

Handysize vessels continued to dominate the Group's assets with an average net book value of US$17.3 million and an average age of 7.6 years for those delivered. Tugs, barges and RoRo vessels are denominated in their functional currencies of Australian Dollar and Euro. As such, their United States Dollar carrying values and commitments are subject to exchange rate fluctuations.

A Combined View of Vessel Carrying Values and Commitments



VESSEL COMMITMENTS

As at 31 December 2011, the Group had non-cancellable vessel commitments of US$322.4 million. The vessels are scheduled to deliver to the Group between January 2012 and January 2014 as shown in the table.

US$ Million	Number	2012	2013	2014	Total
Handysize vessels	8	80.4	28.8	20.9	130.1
Handymax vessels	7	73.7	102.0	–	175.7
RoRo vessels	1	16.6	–	–	16.6
Commitments at 31 December 2011	16	170.7	130.8	20.9	322.4

These commitments, along with other potential vessel acquisitions, will be financed by a combination of cash generated by the Group's operations, existing cash, unutilised bank borrowing facilities and additional long term borrowings to be arranged as required. Where the commitments are in currencies other than the functional currencies of the underlying assets, the Group has entered into forward foreign exchange contracts to purchase the currencies at predetermined rates.

VESSEL PURCHASE OPTIONS

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

Earliest year in which options may be exercised	Vessel type	Number of vessels at 31 December 2011 Finance lease	Operating lease	Average age of vessels (years)	Average purchase option exercise price[1] (US$ Million)
2012	Handysize	13	4	9	15.5
	Handymax	–	1	7	14.0
	Tug & barge	–	3	4	2.3
2016	Handysize	–	2	5	43.3
	Handymax	–	1	5	30.0
	Post Panamax	–	1	5	74.5
2017	Handysize	–	1	5	36.6
2020	Handysize	–	1	7	38.7
2021	Handysize	–	1	7	39.6
Total		13	15		

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

Estimated fair market values are US$19.5 million and US$24.0 million for 5 year old 32,000 dwt Handysize and 56,000 dwt Handymax vessels respectively.

VESSEL LEASE COMMITMENTS

The following table shows the average contracted daily charter rates and total number of vessel days of our Handysize and Handymax vessels under operating leases and finance leases in each year of the lease term, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements.

Handysize and Handymax vessel lease commitments

	Handysize Operating leases		Handysize Finance leases		Handymax Operating leases	
Year	Average daily rate (US$)	Vessel days	Average daily rate (US$)	Vessel days	Average daily rate (US$)	Vessel days
2012	11,150	10,440	5,960	4,750	13,070	5,030
2013	11,630	4,700	5,950	4,750	13,200	1,470
2014	11,820	4,060	5,940	4,750	13,150	1,000
2015	12,000	3,660	5,910	2,590	13,720	440
2016	11,860	2,810	5,970	1,830	14,000	370
2017	11,960	2,560	5,840	610	14,000	370
2018	11,900	2,200	–	–	14,000	370
2019	12,830	1,460	–	–	14,000	10
2020	13,020	1,100	–	–	–	–
2021	14,000	310	–	–	–	–
Total		33,300		19,280		9,060
Aggregate operating lease commitments:	US$390.2 m				US$119.7 m	

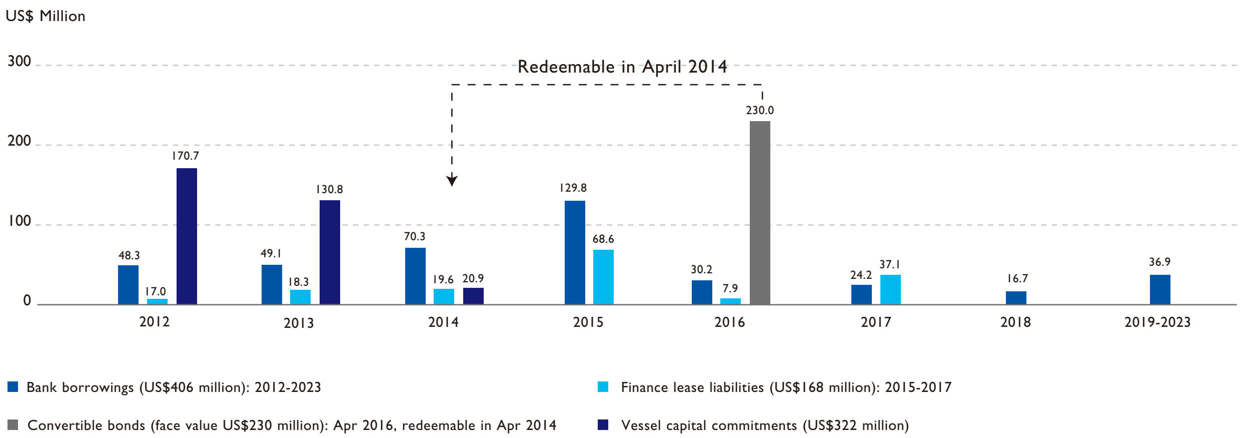
Vessel operating lease commitments stood at US$540.0 million (2010: US$362.0 million), comprising: US$390.2 million for Handysize; US$119.7 million for Handymax; US$1.0 million for tugs; and US$29.1 million for Post Panamax vessels. The increase in operating lease commitments was mainly due to the higher number of medium term (1-3 years) Handysize and Handymax contracted days.

Vessel finance lease commitments are included as part of property, plant and equipment.

SCHEDULE OF REPAYMENTS AND VESSEL CAPITAL COMMITMENTS

The repayments of borrowings and vessel capital commitments by year are shown below:

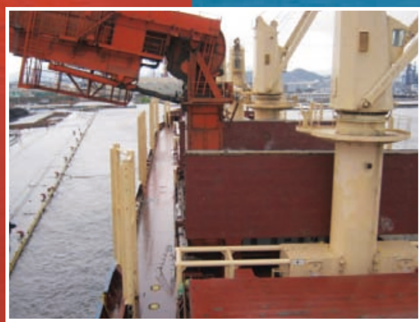
Repayments and Vessel Capital Commitments



Corporate Social Responsibility

CAPTAIN ZHU QIANCHUN — "SEAFARER OF THE YEAR"

Our Captain Zhu Qianchun was named "Seafarer of the Year" at the Lloyd's List Awards Global 2011 event in London last September. He also received the same award at Lloyd's List's Asia awards event in October and has received commendations from the Hong Kong Marine Department and other shipping industry bodies for his actions.



The prestigious "Seafarer of the Year" award was welcomed acknowledgement of the exemplary seamanship and leadership that Captain Zhu demonstrated in the face of adversity.

On 11 March 2011, our "Port Pegasus" was berthed at Onahama when the devastating 9.0 magnitude earthquake and Tsunami struck. The ship experienced waves of up to 8 metres, submerging the dock and severing all but one of the ship's mooring lines. For 18 hours, Captain Zhu and his crew operated the vessel's propulsion and steering to manoeuvre the ship, often at full power, to battle the extraordinary currents and keep the ship at berth. And all that with a shore-side unloader still stuck deep in the ship's hold and with no possible assistance from tugs, pilots, port control or linesmen.

Throughout, Captain Zhu focused on keeping his crew safe, calm, confident and organised, with constant communication within the team ensuring that the crew's often very physical and speedy work was coordinated to cope with the continually changing situation. For their admirable and successful efforts, Captain Zhu and his crew saved the ship and re-secured her once the Tsunami subsided, all along avoiding any injury, pollution and damage affecting the ship's seaworthiness. Captain Zhu showed great leadership and skill on that devastating day, as well as tremendous maturity for a young man who had been promoted to Master only one month earlier.

Captain Zhu started his career with Pacific Basin ten years ago, and we are immensely proud of him and thankful for his exemplary service under pressure. He fully deserves the accolade of "Seafarer of the Year".

Ranking Captain Zhu among 100 most influential people in shipping, Lloyds' List were right to highlight "the daily heroics that go unrewarded and largely unnoticed across the world and the influence that seafarers have on our industry" and the need to repeat the key message that seafarers deserve respect and recognition. That is something we at Pacific Basin recognise deeply.


Pacific Basin

Green – The Business Case

INTRODUCTION

We are pleased to introduce this first Pacific Basin CSR Report for 2011 which serves to communicate our environmental, workplace and community philosophies, initiatives and performance in greater detail than we have described in our previous annual and interim reports.

Pacific Basin is already a substantial business which operates a large fleet of ships and we plan to grow further with a focus on our core dry bulk activity and an ambitious vision for the future.

We recognise that such ambition comes with responsibility in a number of areas. The most fundamental of these is the environment and, as a leader in our field, we challenge ourselves to do the best we can to reduce our environmental footprint, not only because of the moral obligation to do so, but also because of the strong business case for taking action –

In the context of oil and fuel price inflation and increasing climate change and emissions-related legislation, the environmental decisions and actions we take now will make us competitively stronger and have a bearing on the long term sustainability and shareholder value of our business in the future.

OUR ACTIONS

We therefore operate our vessels in strict adherence to applicable environmental legislation and exceed regulatory requirements and industry standards where practically possible.

We give priority to our in-house efforts to minimise our emissions and are confident that we will be at the head of the pack in terms of environmental performance within our sector when emissions legislation becomes globally enforced. We can be proud of what we have achieved so far, and are glad to report that we have won high-profile recognition of our efforts in the form of the Environment Award at the Lloyd's List Awards Global 2011.

CONCLUSION

The environment is one of several areas in which we feel we have a duty to act responsibly in a broader effort to improve our corporate citizenship and sustainable business practice. This report serves to share with our stakeholders a record of our environmental initiatives and performance.

We trust you will find we have made a good start in what is an ongoing programme to develop our CSR reporting and a continuous effort to reduce our impact on the environment. It is a comprehensive account of our actions which we intend to follow up with shorter updates of our progress and new initiatives in future annual reports.

IMO and tackling carbon emissions

International legislation – mandated and regulated by the UN's International Maritime Organisation (IMO) – has addressed substantially all environmental impacts from shipping with the notable exception until now of greenhouse gas (GHG) emissions which are inextricably linked to climate change.

GHG emissions and climate change have quite correctly been a high priority on the global agenda in recent years, and we can expect to see new emissions legislation in the future that will directly impact the shipping industry.

The IMO proposes to tackle emissions reduction with:

- a package of technical and operational measures set to come into force in 2013 comprising:
  - the Energy Efficiency Design Index; and
  - the Ship Energy Efficiency Management Plan; and
- market-based emissions-cutting incentives.

Failure of the IMO's climate initiative proposal to be sufficiently credible may result in unilateral local or regional initiatives and consequently an expanded patchwork of regulation and a fragmented and difficult trading environment for what would become a much more segmented industry.

Pacific Basin is supportive of the creation of sensible but effective industry-wide measures to reduce emissions – a global effort which we believe should be the sole jurisdiction of the IMO – including the adoption of carbon taxation in the form of a levy on bunker fuel.

So, the global nature of our business creates unique challenges for us when considering the environment. Pacific Basin is fully prepared to meet these challenges and work with policy makers, researchers and customers to ensure we make the right choices to help combat pollution and anthropogenically induced climate change while providing a bright future for the Company.

OUR SUSTAINABILITY STRATEGY

We firmly believe in the relationship between the adoption of responsible practices and risk and the financial performance of our business. Sustainability is therefore closely linked to our strategy in the short and medium terms and our vision for Pacific Basin in the long term. Our broad strategic CSR objectives that guide our sustainability initiatives relate to the environment, our workplace and our community as follows:

Environment

Understanding and minimising our impact on the environment through adoption of energy-efficient and environmentally-friendly ship designs, technologies and practices at sea and ashore

Workplace

Looking after our people by ensuring their safety, fostering a happy and fulfilling workplace, and nurturing our talent and harnessing their performance potential

Community

Ensuring our responsible behaviour in the communities in which we are present, from our engagement in the shipping industry, to anti-corruption in the business world, to positive contributions to worthy causes closest to our business

CSR Milestones

2010		Pacific Basin trials and adopts various technologies and practices including Propeller Boss Cap Fins, increased antifouling paint area, garbage compactors, improved adaptive autopilot, slow steaming, etc.
2010		Pacific Basin tracks head office emissions through WWF Loop Programme
2010	Nov	Pacific Basin signs for 10 dry bulk ships of enhanced, fuel-efficient eco-design
2011	Jan	"Nobody is perfect, but a team can be" is published in Alert
2011	April	Introduction of "22 crew, 22 owners" concept
2011	June	Pacific Basin wins gold award for Environmental Responsibility at The Asset Corporate Awards 2011
2011	Sept	Pacific Basin wins Environment Award at Lloyd's List Awards – Global 2011
2012		Pacific Basin continues to assess viability of new technologies and practices

Key Issues

We prioritise in this materiality matrix the CSR issues we deem most important to our business and to our stakeholders, and we have given them and their KPIs prominence in this report. We will seek to invite further feedback as part of an on-going stakeholder engagement programme to inform and develop our future CSR management and reporting.

Impact on our Stakeholders \ Impact on our Business	Low-Medium	High
High	Areas identified as relevant for discussion: Other emissions Marine discharge Shore discharge Waste management Working conditions Diversity & equal opportunity Responsible business practices Community interaction	Areas identified as critical for disclosure: GHG emissions Marine pollution Health & safety Employee engagement
Low-Medium	Areas identified as not material for disclosure: Other outputs Shore-based enviro initiatives CSR performance of PB Towage and PB RoRo (we plan to report on these in the future)	Areas identified as relevant for discussion: Future green technologies Fuel consumption (energy efficiency) Development & Training Anti-Piracy

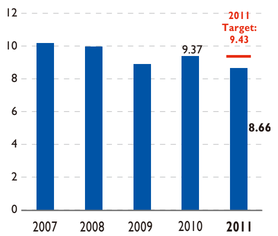
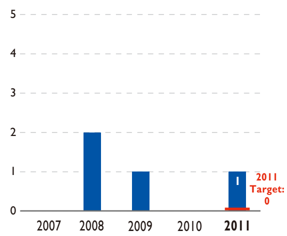
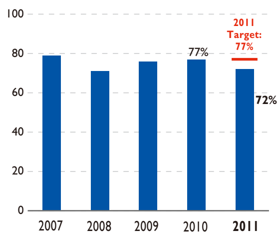
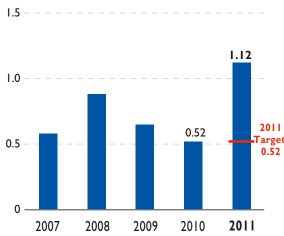
Board-level Responsibility for CSR

Executive responsibility for Pacific Basin's CSR and environmental sustainability – including climate change matters – is delegated to the CEO who oversees environmental, workplace and community initiatives managed largely by our Technical, Human Resources and Administration teams respectively. In view of the broad, complex and potentially very expensive nature of environmental concerns, regulations, technologies and initiatives, an Environmental Committee of senior executives has been established to assist in studying and giving direction to our environmental efforts. Reporting to the CEO and Environmental Committee is our Fleet Director and his technical and newbuilding team who manage and report on our main emissions tracking and minimisation and other ship-board environmental initiatives.

How We Performed in CSR

CSR KPIs

We measure our Group's CSR progress through eight Key Performance Indicators aligned with delivering our strategy on environmental and workplace responsibility.

<table>
<tr><th></th><th colspan="2">Environment</th><th colspan="2">Workplace</th></tr>
<tr><td>KPI</td><td>CO_2 Index (Ships' Emissions)</td><td>Environmental Pollution Incidents</td><td>Zero Deficiencies in External Inspections</td><td>Deficiency Rate in External Inspections</td></tr>
<tr><td></td>
<td>8.66 Grams of CO_2 per tonne-mile ▼ 7.5%
</td>
<td>1 INCIDENT
</td>
<td>72% ▼ 5%
</td>
<td>1.12 Deficiencies per inspection ▲ 115%
</td></tr>
<tr><td>Aim</td><td>In the absence of an alternative primary fuel for dry bulk shipping, to do what we reasonably can to reduce our consumption of marine fuel oil and our emissions of greenhouse gases – particularly CO_2 (2011 target: 9.43)</td><td>To achieve zero pollution incidents across our fleet</td><td colspan="2">To maintain our ships to a very high standard, a good measure of which is our performance in external Port State Control (PSC) inspections, including:
• the frequency with which such inspections find zero regulatory deficiencies (2011 target: 77%)
• the average number of deficiencies in each external inspection (2011 target: 0.52)</td></tr>
<tr><td>Performance</td><td>Our emissions reduction initiatives contributed to a 7.5% decrease in our CO_2 emissions to 8.66 grams of CO_2 per tonne-mile</td><td>Regretfully, inadequate risk management resulted in the overflow of fuel during internal fuel transfer operations in Inchon, Korea. Corrective and preventive measures have been implemented across the fleet to avoid recurrence</td><td colspan="2">Our zero deficiency rate reduced slightly to 72% and our average deficiencies per inspection increased to 1.12 which we attribute to increased PSC inspections in the Far East where defects are typically raised in larger numbers and logged even if subsequently proven to be in order. These results are nevertheless among the best in the industry and, excluding Far East inspections, we achieved a zero deficiency rate of 79% and an average deficiency rate of 0.75.</td></tr>
<tr><td>Target</td><td>To improve our emissions performance in 2012, though this will partly be driven by the market's adversity towards speed optimisation</td><td>We always target to achieve zero pollution incidents</td><td colspan="2">To significantly improve our external inspections performance in 2012 through our policy of "zero defects in external checks through good self-checking by 22 crew, 22 owners".</td></tr>
</table>

PREPARATION & SCOPE OF THIS REPORT

This CSR report focuses on the initiatives we pursue to reduce our business' main impacts on the environment and enhance workplace health, safety and fulfilment. We disclose key indicators we use to assess our performance in these areas in 2011.

We have prepared this report to communicate our progress drawing on the voluntary ESG (environmental, social and governance) Reporting Guide of the Hong Kong Stock exchange, the voluntary sustainability reporting guidelines of the Global Reporting Initiative and the guiding principles of the United Nations' Global Compact.

Environmental and Safety KPI data in this report has been measured or calculated in accordance with industry standards, and measurements have been audited by Lloyd's Register QA.

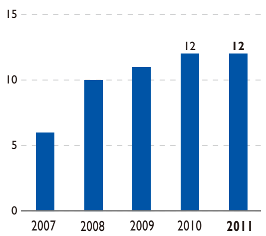
We will again disclose our greenhouse gas emissions to the Carbon Disclosure Project in 2012

Workplace

KPI

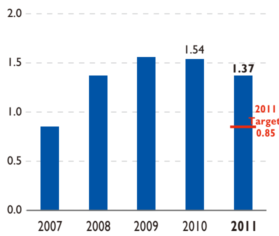
Lost Time Injury Incidents

12 INCIDENTS



Lost Time Injury Frequency (LTIF)

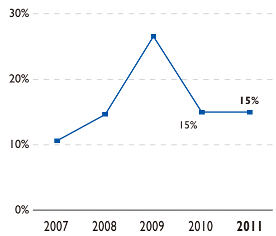
1.37 ▼ 11%



Employee Engagement

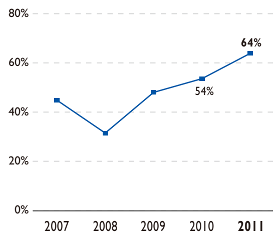
Shore-staff Turnover

15%



External Training

64% ▲ 10%



	Lost Time Injury Incidents / Lost Time Injury Frequency (LTIF)	Employee Engagement
Aim	To minimise the risk of injury and to reduce lost time due to injury The LTIF rate is a principal measure of safety performance, defined by the number of lost-time injuries multiplied by 1 million, divided by total man-hours worked in the reporting period Lost Time Injuries are those in which the injured party misses at least one working day (8 hours) at work	To be the employer of choice in our industry so that we attract and retain the best people. To maximise the degree of our employees' attachment to their job, colleagues and organisation, impacting their commitment to their work and our company Our key indicators of shore-based employee engagement are our staff turnover rate and the percentage of staff receiving external training
Performance	Our LTIF improved by 11% although we failed to meet our target and the overall number of injuries remained unchanged due mainly to slips, trips and falls	15% of staff left the Group due in part to some rationalisation of our business during the year and 248 employees (64%) received external training We achieved an engagement score of 71% in Hewitt "Best Employers in Hong Kong" survey results published in 2011 (one of the highest scores in Hong Kong, and up from 51% in 2006) Our seafarer retention rate was 74% in 2011
Target	To substantially eliminate our lost-time injury incidents in 2012 and to improve on our best LTIF achievement of 0.85 in 2007	To limit staff turnover to approximately 10% and maintain our current high levels of external training in 2012 We aim to participate in another Hewitt staff engagement survey in 2012 - this time involving all our staff globally

Our most significant safety, quality, health and environmental (SQHE) issues are generated by our core dry bulk fleet and so this report concentrates on our dry bulk, ship-based SQHE considerations and initiatives. In particular, it reviews how we manage our ships' atmospheric emissions, risk of pollution incidents and safety performance. We also report on our group-wide staff engagement initiatives and performance.

We report on the environmental impacts of assets over which we have long term operational control which, according to the Greenhouse Gas Protocol, refers to areas of our business "where the Group has authority to introduce and implement its operating policies". Therefore, we focus on the SQHE performance of our fleet of owned and finance-leased dry bulk ships which we controlled both commercially and technically (average 43 vessels in 2011).

In due course, we will look to incorporate KPIs for our growing towage and RoRo shipping activities for which environmental programmes and reporting systems are currently under development.

Environment

ENVIRONMENTAL POLICY & MANAGEMENT SYSTEM

Recognising as we do that emissions and other environmental impacts from our industry need to be significantly reduced, and keen to be at the forefront of efforts within our sector to tackle this challenge, we have adopted an environmental philosophy which is encompassed in the following straightforward Environmental Policy:

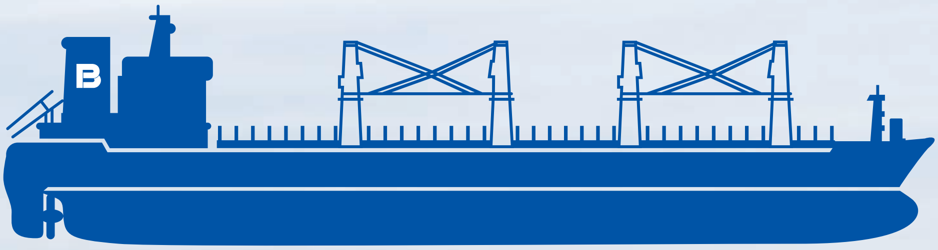
> **“Pacific Basin is committed to being an environmentally responsible company at the forefront of efforts within the shipping industry to minimise our impact on the environment, in particular through initiatives to reduce atmospheric emissions, marine discharges and resource consumption. We seek to achieve this by:**
>
> - ✓ **adopting environmentally-friendly technologies and practices across our business;**
> - ✓ **pursuing environmental initiatives at sea and on land that go beyond what is required of us under law; and**
> - ✓ **promoting more modest practices even if they only bring relatively small benefits to the environment, because we believe that even small group-wide and individual contributions make a difference.”**

OUR IMPACT ON THE ENVIRONMENT

Propelling a vessel across oceans requires a number of resources or inputs, the consumption of which results in outputs that impact negatively on the environment. The diagram below summarises the main inputs and resulting outputs related to dry bulk shipping.

INPUTS

Fuel Oil | Ballast Water | Lubricants
Paints | Food & Packaging | Chemicals
Dunnage (cargo packing material)



Atmospheric Emissions

- Carbon Dioxide (CO_2) & other greenhouse gases
- Sulphur Oxides (SO_x)
- Nitrogen Oxides (NO_x)
- Particulate Matter (PM)
- Volatile Organic Compounds (VOCs)

Marine Discharge

- Bilge water
- Ballast water
- Sewage & gray water
- Garbage/food waste
- Toxic leaching from paint
- Cargo residue
- Accidental discharges

Shore Discharge

- Garbage
- Waste dunnage
- Cargo residue
- Sludge
- Hazardous waste
- Expended parts

Other Outputs

- Noise
- Odour
- Visual impact

SHIP-BASED INITIATIVES

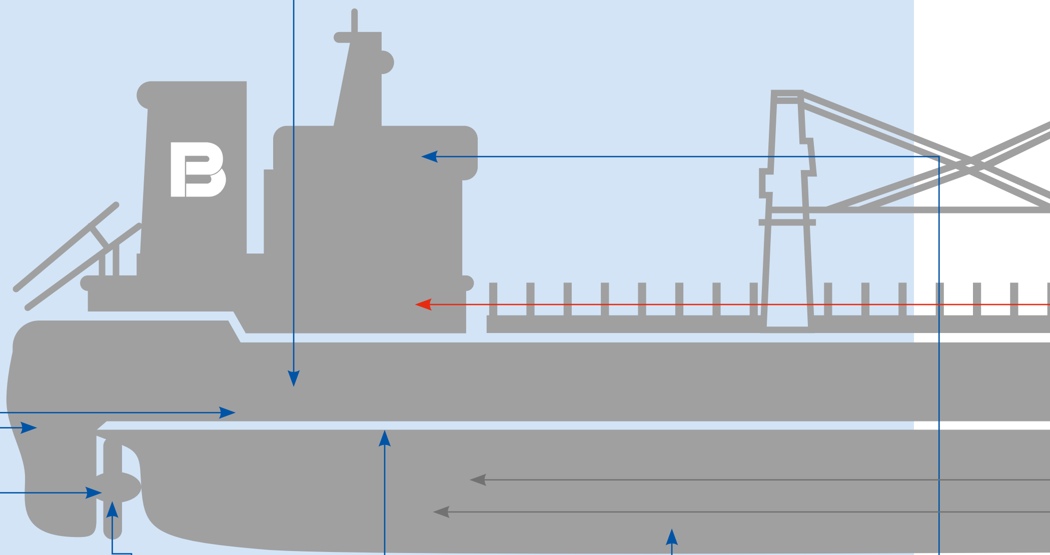
Summary of our main initiatives to reduce our environmental impact

REDUCING ATMOSPHERIC EMISSIONS AND FUEL CONSUMPTION

Improving engine performance

Fuel combustion catalysts achieve fuel oil savings, cleaner combustion and reduced engine overhaul frequency

Computer programme determines optimal overhaul intervals for principle machinery components to maximise engine efficiency



Improving hull and propulsion hydrodynamics

Propeller boss cap fins can improve fuel efficiency by up to 5%

Computer-based systems monitor and track our main engine performance and fuel efficiency

Anti-fouling paint applied over an increased hull area reduces drag even when fully laden

We invest in continual fleet renewal for environmental and economic reasons, focusing on new ships and working with designers on the latest **innovative fuel-efficient hull designs and machinery** to shave several percent off fuel consumption of the previous generation of similar ships

Adoption of fuel-efficient operational measures

Improved course-keeping and reduction in unnecessary rudder movements achieved through the use of upgraded **self-tuning, adaptive autopilot** systems which adjust automatically to load characteristics and weather conditions

Fuel-efficient voyage planning (combining marine weather and real-time ocean currents data), **Right Speed Programme, cylinder lubrication optimisation** and **careful scheduling of our large fleet** of ships to maximise utilisation and minimise ballast passages result in increased fuel savings overall

MONITORING THE DEVELOPMENT OF FUTURE GREEN TECHNOLOGIES

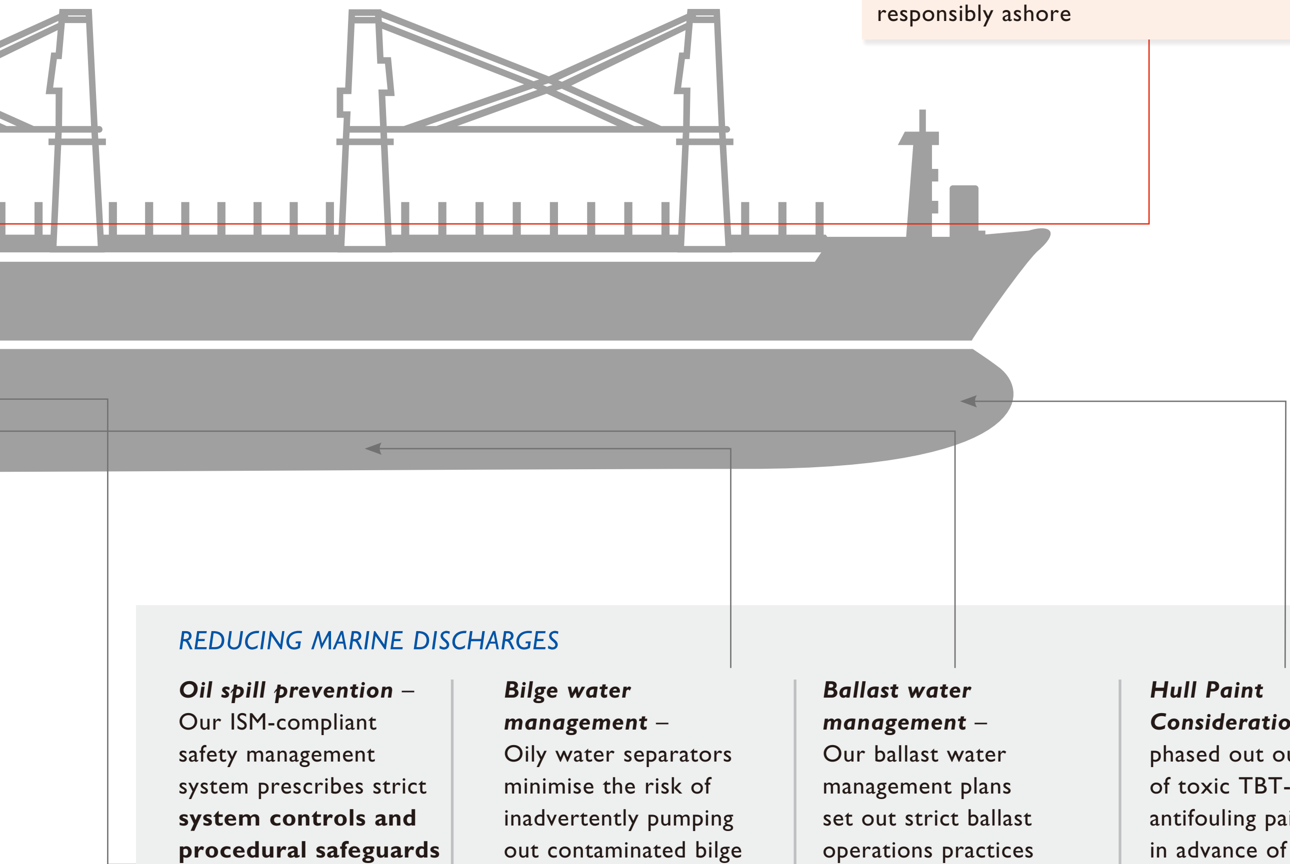
Exhaust filtration – We are closely tracking the development of **exhaust gas scrubbing** technology to reduce greenhouse gas emissions in exhaust fumes although, for now, scrubbing equipment is not sufficiently viable for use on our ships

New, clean propulsion technologies – We hope and expect **new, clean technologies** to eventually replace the fossil fuel burning internal combustion engine to propel commercial vessels in the longer term. Meanwhile we are encouraged by developments in clean technology being trialled as auxiliary sources of propulsion (such as large towing kites) but do not yet consider any of these technologies to be sufficiently advanced, practical or cost-effective for adoption on our ships

Combustion of cleaner fuel
The shipping industry has long been dependent on dirty, high-sulphur fuel oil, but new requirements for the use (and supply) of increasingly cleaner, low-sulphur fuel in a number of Emission Control Areas (ECAs) and globally should mark the beginning of a longer-term effort to improve the quality of fossil fuels made available to the maritime industry

IMPROVING WASTE MANAGEMENT

Garbage compactors on our ships facilitate easy storage of operational garbage (excluding food waste and cargo residues) until it can be disposed of responsibly ashore



REDUCING MARINE DISCHARGES

Oil spill prevention – Our ISM-compliant safety management system prescribes strict **system controls and procedural safeguards to prevent fuel oil spillage** and our crew are trained in oil spill response in the event that accidental spillage should occur

Bilge water management – Oily water separators minimise the risk of inadvertently pumping out contaminated bilge water

Ballast water management – Our ballast water management plans set out strict ballast operations practices in compliance with the IMO's ballast water management convention and equivalent local port state regulations

Hull Paint Considerations – We phased out our use of toxic TBT-based antifouling paints well in advance of 2008 regulatory deadlines and now use biocide-based paints while monitoring advances in more eco-friendly paints

Workplace

Reflecting the sentiment in our vision, we strive to be the employer of choice for our existing staff and for talented potential employees in our industry.

Our people are central to our business and so we do what we can to provide our multi-national colleagues with an attractive, enjoyable, fulfilling, safe and supportive working environment. We believe that the right investment in our colleagues at all levels of the organisation – both at sea and ashore – does much to increase knowledge and productivity, contribution and engagement, loyalty and retention, and a deeper sense of belonging to the Company.

That investment in our employees and their engagement broadly takes the following forms:

- Working Conditions
- Health & Safety (including Anti-Piracy)
- Development & Training
- Diversity & Equal Opportunity
- Responsible Business Practices, including:
  - Legal Trading
  - Anti-Corruption
  - Anti-Collusive Behaviour
  - Responsible Procurement
  - Labour Standards, Labour Relations & Human Rights

WORKING CONDITIONS

We work in well-located, high-quality offices which offer our staff a **safe, comfortable and engaging working environment**. We pay particular attention to good air conditioning and lighting – mindful of the environmental impact of such technologies – as well as ergonomic workstations in open plan areas to facilitate staff interaction and efficient working practices.

Our staff work very hard and so we encourage them to pursue a **healthy balance between family life and work**. A good working environment is one that minimises stress and "burn out", absenteeism and high levels of staff turnover which compromise team performance. First and foremost, we want our staff to be happy at work and thus able to perform effectively.

Remuneration of key staff is partly aligned with the Company's delivery of shareholder value through their participation in our **share-based Long Term Incentive Scheme**.

p.43 Staff engagement KPIs
p.73 Remuneration Report

We believe that **employee engagement** – the degree of employees' emotional attachment to their job, colleagues and organisation which profoundly influences their willingness to learn and perform at work – is significantly enhanced by offering them an environment in which they can better understand and influence the company's goals, governance and culture. We seek to provide such a forum through quarterly town hall meetings, monthly informal gatherings and a relaxed open-door policy that gives all employees ready access to the group's senior management team.

SHORE-BASED ENVIRONMENTAL AND HEALTH & SAFETY INITIATIVES

We have introduced policies and practices in our offices to reduce our environmental impact, such as through reduced consumption of electricity, water and materials, and the recycling of much of our office waste, reflecting a similar commitment to protecting the environment ashore as we demonstrate at sea.

Internally, our environmental message is distributed through guidelines and notices posted on our intranet and on notice boards as well as through our company newsletter and occasional environmental and community events – externally, it has been conveyed to stakeholders through our annual reports.

Our implementation of the Pacific Basin Management System ashore and at sea conforms to the mandatory International Safety Management (ISM) Code and a number of voluntary safety and environmental management standards as certified by Lloyd's Register Quality Assurance (LRQA), including:

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

ISO9001 • ISO14001
OHSAS 18001

HEALTH & SAFETY

Safety is our prime concern. Our commitment to the safe operation of our ships is communicated through our Safety, Quality, Health and Environmental protection (SQHE) policy and manifested through a proactive management system ashore and at sea – the Pacific Basin Management System (PBMS) – a key objective of which is:

Promoting and ensuring safety at sea and prevention of human injury or loss of life

The key actions of our SQHE policy designed to achieve the above objective:

- We employ qualified seafarers in accordance with requirements of flag state and STCW (Standards of Training, Certification & Watchkeeping) Code
- We assess all identified risks to our ships, personnel and the environment and establish appropriate safeguards and safe practices
- We provide a safe and healthy work environment and ensure the welfare of the staff
- We seek to continuously improve quality, health & safety and environmental performance and management skills of personnel ashore and at sea, through a system of audits, analysis and feedback
- We keep personnel appropriately informed of SQHE matters by circulating pertinent information and providing training resources and opportunities
- We enforce a drug and alcohol policy on board our ships and ensure all watch-keeping personnel undergo drug and alcohol tests before embarking on any of our vessels

OUR HEALTH & SAFETY INITIATIVES

Pacific Basin has launched a number of initiatives to reinforce our class-leading safety culture and mitigate safety and environmental risks:

- "22 Crew, 22 Owners" is a home-grown concept through which we **empower and motivate** our crew to manage our vessels with a pro-active safety culture, acting to mitigate risk in every task on board.
- Our Masters and Chief Engineers are considered "Pacific Basin Managers" on board and so are motivated to "manage the ship on ship". They attend Pacific Basin technical department meetings and other briefing sessions in our Hong Kong headquarters prior to joining each ship.
- We promote a **no-blame culture** designed to eliminate any reluctance to communicate issues on board to our shore-based team who strive to provide the best possible support to our fleet.
- We strive for and have developed guidelines on **high-performance teamwork**, and we attribute our excellent safety record to the right attitude of our teams at sea. We believe that "nobody is perfect, but a team can be", and we have published our approach to teamwork in an article of the same name in "Alert", the International Human Element Bulletin.
- Our **"zero defects in external checks through good self-checking"** policy has resulted in excellent external inspection results. We have had minimal detentions resulting from port state inspections in the past three years.

p.42 Safety KPIs

- We recognise that accidents and incidents can happen to the best-trained crews due to fatigue, stress and a lack of foresight or pro-active planning on board. We invest in **non-standard measures** to reduce this risk, such as delaying a ship's departure for improved familiarisation after a crew change, or by allowing the crew to rest at anchor following particularly busy operations or an incident and its subsequent tiring investigation.
- Rather than burdening the busy seafarer with excess data, we compile information packs for the relevant ship type and imminent voyage, **summarising key information** for efficient management aboard and learning from Other People's Mistakes ("OPM").
- Industry and internal incidents, near misses and events are analysed and prompt action is taken throughout the fleet to avoid similar occurrences. **Extensive feedback** is sought prior to implementing new systems, and we strive to simplify and improve existing processes to avoid overloading the safety management system in a way that stifles innovation and effectiveness of ships' crew.

We received the Hong Kong flag state award for "Best Performing Ship Management Company in Port State Control Inspections" for a fourth consecutive year in 2011. We were named "Shipmanager of the Year" and received a high commendation for our performance in safety at Lloyd's List Award Asia 2011.

DEVELOPMENT & TRAINING

Investment in the development and training of our staff at sea and ashore is key to maximising our crew and ships' safety and productivity, while also a major factor in the successful motivation engagement and retention of our people.

EMPLOYEES AT SEA

- We train our seafarers to standards exceeding those required by STCW. Some of the extra investments we make are Maritime Resource Management (MRM), Bridge Resource Management (BRM) and Engine Resource Management (ERM) training, simulator and computer-based training, enhanced pre-joining briefings for all staff, and the deployment of fleet training managers on our vessels.

- We conduct half-yearly in-house training seminars at our crewing centres in Dalian and Manila. Incidents within the fleet and elsewhere in the industry are discussed and, with participant involvement, preventive measures are developed and communicated. Participants are kept fully abreast of regulatory requirements, experience feedback and other developments affecting our industry and their areas of focus.

- In 2011, we introduced training seminars run on a voluntary basis by our experienced Masters and Chief Engineers for the benefit of our ratings.

- We have operated an officer cadet recruitment and training scheme in China since 2005, and this was extended to the Philippines in 2010. We doubled our intake of officer cadets on our vessels in 2011.

- We partner with the Swedish P&I Club to train our officers in Maritime Resource Management. A number of managers from our offices in Hong Kong, Dalian and Manila have undergone MRM Leadership Training and now run regular MRM training at our crewing centres in Dalian and Manila.

- We employ four Fleet Training Managers (up from three last year) to sail periodically on vessels and offer our crew on-the-job training in safety and key operational areas. Our in-house technical department provides advice and shore-based support for safe operations and the consistent delivery of quality service.

- Our crew retention rate in 2011 exceeded 74% and our officers have a clear career path from bridge or engine room to management positions ashore. Approximately half the managers in our technical division are former Pacific Basin seafarers.

EMPLOYEES ASHORE

- Social and team-building events – We gather to celebrate seasonal festivals and the delivery of new ships into our ownership, and we organise team-building off-site events which reinforce the personal bond and understanding each of us has with our colleagues and Company.

- Group-wide intranet connectivity & information sharing – We employ a group-wide intranet called "PB Connect" as an online platform for sharing industry data and news as well as company news from our teams around the world so that each of us is connected to the "PB" family.

- On the job training & company visits – Our trainees receive exposure to a number of areas within our business and that of our various stakeholders. For example, our young executives understudy the heads of functional units within the Company, such as insurance, bunkering and technical, and they attend voyages on board our ships and visits to shipyards, shipping agents, shipbrokers and customers. They also receive preparatory support and sponsorship for Institute of Chartered Shipbrokers courses and examinations.

- Independently-run classroom and seminar-based training – Staff at all levels of the organisation are encouraged to attend training conducted by professional academic bodies and training institutions. In 2011, 64% of our shore-based colleagues underwent some form of classroom or seminar-based training, which we believe motivates staff whilst enhancing their skill sets to do their job efficiently and effectively.

- Leadership and management training – We invest in executive education for senior management and colleagues identified as future leaders of the Company, which we consider an important part of our succession planning. We send them to leadership consultants and business schools around the world to hone their leadership skills.

- Training in other specialised management tools – The Company equips its managers and leaders with sufficient knowledge of specialised management tools such as psychometric evaluation systems that help in the process of recruitment, team-building, conflict management and promotion strategies.

ANTI-PIRACY

The significant escalation of piracy attacks in the past several years, predominantly in the Indian Ocean, has been a major cause for concern.

Some key practices and initiatives we pursue to protect our crew and vessels from falling victim to piracy:

- Every transit through the Gulf of Aden or Indian Ocean region requires the approval of the Company's Chief Operating Officer, which will only be granted after a risk assessment and a review of risk mitigation measures on a case-by-case basis.
- When transiting through or near high-risk areas, we harden the vessel, such as through the use of razor wire around the ship's hull and by reinforcing the engine room door to create a safe room or "Citadel" for crew to take refuge in the event of an attack.
- We route our vessels along the coastline when transiting between Asia and the Arabian Gulf and we follow the militarily-patrolled Internationally Recommended Transit Corridor when transiting the Gulf of Aden.
- We train our crew to follow best management practice which can make all the difference between an unsuccessful approach by pirates, and falling victim to an attack and kidnap and ransom situation.
- In 2011, the Hong Kong Marine Department softened its stance on the prohibition of arms and armed personnel on board ships following the increase in pirate attacks in areas where naval convoy protection is not available.
- Our policy on the use of armed security personnel has also changed due to the escalation of the problem. We do now allow the employment of armed guards subject to a detailed risk assessment on a case-by-case basis, and subject to approval from the vessel's flag state and insurers.
- We have employed armed personnel on board our owned ships, having previously only used unarmed guards on board or retained the services of an armed escort vessel.

DIVERSITY & EQUAL OPPORTUNITY

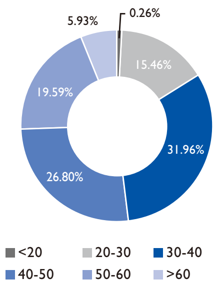
We take great pride in the diversity that exists amongst our staff who comprise over 30 different nationalities. That diversity – of colour, gender, age or whatever traits they may be – combined with the Company's encouragement of good humour, curiosity and an entrepreneurial spirit, generate increased creativity and vitality in our workplace, all to the benefit of our staff and our business.

Our position on diversity, equal opportunity and inclusiveness is encompassed in our published business principles which culminates with this statement:

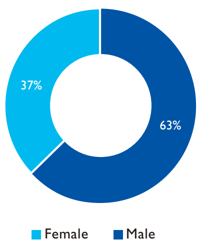
> ***"Above all, we treat everybody with dignity and respect, and we encourage diversity of opinions and cultures"***

The Company's staff handbook includes a policy that entitles every staff member to employment that is free of sexual or racial harassment.

Age distribution (as at 31 Dec 2011)



Gender distribution



RESPONSIBLE BUSINESS PRACTICES

In the pursuit of our vision, mission and objectives, we always seek to apply sound and internationally accepted business ethics and principles, as embodied in our business principles and our mission:

> ***"To achieve our Vision by applying ever-evolving high standards of service and conduct in everything we do"***

Our business principles cover a range of tenets and traits designed to maximise the trust, respect and friendship between the Company and its stakeholders, highlighting the fairness and responsibility with which we approach our business.

> ***"We always honour our commitments"***

TRADING PRACTICES

Our ships operate globally and we engage in trades that comply with international laws and do not contravene international trade sanctions or relevant local or national laws.

Our customers are required not to ship illegal goods on our vessels, and our global chartering organisation follows the key rule of "knowing your customer and their business" which enhances our understanding of their cargo.

Our customers are mainly reputable, blue-chip organisations who we know well. For newer potential customers, we may seek advice on their background, verbal and written references, formal counterparty risk appraisals, and we check if they appear on US, UK, EU and UN sanction lists.

We also consider where voyages are from and to, and monitor the layers of sanctions prevailing around the world so as not to risk exposure to criminal penalties.

There are also safety nets that give us additional comfort that trades we engage in do not violate relevant laws. Importantly, banks do not provide letters of credit or finance to customers if the cargo or trade breach sanctions, thus preventing the customer from executing a freight contract with us. A second check arises when the cargo and/or freight invoice is payable, at which point banking systems automatically vet the countries and counterparts involved in the transaction against sanction lists.

ANTI-CORRUPTION

Our staff handbooks include a Code of Conduct that prohibits our staff from: offering bribes or other inducements to obtain business for the Company; accepting personal benefits in prescribed circumstances; or involvement in fraud, forgery or other forms of corruption.

We require our staff to abide fully by local anti-corruption laws such as Section 9 of the Prevention of Bribery Ordinance under Hong Kong law ("Corrupt transactions with agents") for staff in our Hong Kong headquarters. Similar anti-corruption laws (such as the UK Bribery Act 2010) and expectations apply to all our staff around the world.

ANTI-COLLUSIVE BEHAVIOUR

We operate in highly competitive markets and we do not collude with competitors or otherwise cooperate in a covert manner to gain unfair pricing advantage. The size and market share of our dry bulk, towage and RoRo fleets, and the nature of our RoRo activity in Europe, are deemed not to breach competition regulations in any markets in which we are engaged.

RESPONSIBLE PROCUREMENT

Our Pacific Basin Management System manual requires that, in all but some exceptional circumstances, stores and spares for our fleet are purchased from approved suppliers who are vetted before approval and reviewed at regular intervals thereafter.

Our selection and continued support of suppliers is heavily influenced by the outcome of our reviews of their and their products' performance affecting occupational health, safety, quality and the environment.

Examples of vetting criteria we require of our suppliers and sub-contractors include:

- certification to a recognised international standard;
- approval by regulatory authorities;
- authorised agents or original equipment manufacturers; and/or
- membership of a reputable organisation, such as International Ship Suppliers Association (ISSA) or the International Marine Purchasing Association (IMPA)

LABOUR STANDARDS, LABOUR RELATIONS & HUMAN RIGHTS

Our labour policies and minimum standards are determined with reference to the conventions of the International Labour Organization (ILO) – the United Nations agency that shapes policies to promote decent working conditions for seafarers and other workers.

Most of these ILO conventions relating to seafarers have been ratified by China and Hong Kong and have been incorporated in Hong Kong flag state legislation under Hong Kong CAP478 Merchant Shipping (Seafarers) and other ordinances. As such, they are mandatory for us to follow in respect of our Hong Kong-flagged dry bulk ships.

Where ILO conventions have not been ratified by our flag state, we voluntarily comply with or exceed the requirements of such conventions by way of a Collective Bargaining Agreement ("CBA") with the International Transport Federation ("ITF")-affiliated seafarer unions. Pacific Basin was actively involved in drafting the current Hong Kong flag state CBA which applies to all Hong Kong employers of seafarers under the ITF.

The many ILO conventions and recommendations relating to the employment of seafarers have been consolidated into a single, coherent instrument – the Maritime Labour Convention 2006. While this is expected to come into force in China and Hong Kong in 2013, we have already amended our policies to comply.

Some of the main labour issues covered by the Maritime Labour Convention 2006 are:

- preventing forced labour
- minimum age & preventing child labour
- hours of work
- wages & equal remuneration
- the right to organise & collective bargaining
- seafarers' welfare
- accommodation, food and catering
- discrimination
- social security
- prevention of accidents
- health protection and medical Care

Community

We recognise our obligations as a responsible member of the communities in which we operate, in particular:

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

Our engagement in and contributions to these communities takes a number of forms, in an effort to support their longer term sustainability and that of our involvement in them.

THE SEAFARER COMMUNITY

A seafaring life is not an easy one, and our business is nothing without the dedication of officers and ratings who keep the global merchant fleet moving safely. They and their families face emotional and practical challenges through separation for many months at a time, and life for the seafarer moving back ashore is not always any easier.

We consider our commitment to seafarer welfare to be the main focus of our community investment, and so:

- We donated over US$40,000 to the Sailors' Society and the Hong Kong Mission to Seafarers;
- We sponsor a minibus in Manila for the use of the Sailors' Society to provide free transport to all seafarers in Manila and to facilitated ship visits by the Manila port chaplain;
- We donated US$4,400 to C.I.R.M. (the International Radio Medical Centre) which provides radio-medical assistance to ships in the event of medical emergencies at sea;
- Our CEO and HR Director served as Asian Ambassadors for the Sailors' Society in 2011 with a brief to encourage Asian ship owners to support seafarer welfare causes, especially in parts of the region where there are few or no seamen's churches and welfare groups.

As one of the largest foreign employers of Chinese crew and a significant employer of Filipino crew, we continue to support the Chinese and Filipino seafaring communities with investment in our recruitment centres and training programmes (such as our recently launched officer cadet training programme affiliated with the Philippine Merchant Marine Academy) in Dalian and Manila. In return, we benefit from access to crew resource pools enabling us to man our fleet with experienced crew despite the ever present shortage of maritime personnel in the industry.

THE PORTS WHERE OUR SHIPS TRADE

Our diverse and cities customer base takes our ships to many ports and cities around the world and our crew and ships are considered ambassadors for Pacific Basin wherever they sail. As such:

- We do what we can to exceed requirements under applicable environmental law so as to minimise our impact on the cities, towns, ports and shorelines we visit;
- Our crew are required to show skilful seamanship and act professionally in the way they conduct their ships' business;
- Our crew are required to be respectful law-abiding visitors, to show warm hospitality towards visitors on board, and to be in every way becoming of Pacific Basin personnel; and
- We do what we can to establish and maintain good relations with port authorities, agents and other stakeholders in the places we visit.

HONG KONG

We are headquartered and listed in Hong Kong and our owned dry bulk fleet flies the Hong Kong flag. We are proud of our connection with Hong Kong and we take an active role in the local shipping community to which we contribute through our membership of:

- the Hong Kong Shipowners Association (HKSOA)
- the executive committee of HKSOA
- the shipping consultative committee of the Hong Kong Administration
- the Hong Kong delegation to the IMO's STCW Convention Manila Amendments Conference
- the Hong Kong Marine Department's seafarer advisory board

Hong Kong's maritime heritage has impacted hugely on shipping and trade in the whole region. In 2011 we made a donation to the Hong Kong Maritime Museum Trust to help fund the relocation and expansion of the museum to a new and much larger premises in Hong Kong's new Central Harbourfront expected to be complete in early 2013.

In 2010, we commenced sponsorship of one student per year to pursue a three year bachelor's degree in International Shipping and Transport Logistics at the Hong Kong Polytechnic University.

THE SHIPPING INDUSTRY

We are active contributors within the shipping community through our membership of maritime organisations and bodies such as:

- The International Association of Dry Cargo Shipowners ("Intercargo" – the international ship owners' association wholly dedicated to the needs of the dry bulk cargo industry)
- The Baltic and International Maritime Council ("BIMCO" – the largest international shipping association representing ship owners, managers, brokers and agents)
- The Baltic Exchange (a membership organisation that has historically provided a marketplace for dry bulk transportation and is now also the source of daily shipping market information, shipbroking standards and dispute resolution)
- Technical Committees of Lloyd's Register and ClassNK (these classification societies set standards of quality and reliability during ships' design, construction and operation)
- The Safety and Loss Advisory board of Standard (Asia) P&I Club (the P&I club is a mutual insurance association that insures ship owners and operators for their liabilities to third parties arising out of ship operations)
- The Hong Kong Shipowners Association ("HKSOA" – the association that promotes and protects the interests of Hong Kong ship owners and ship managers)

HKSOA is particularly vocal in its engagement with international industry bodies such as the International Chamber of Shipping and the IMO. Our active role in HKSOA and other industry bodies affords us a voice in international dialogue with legislators and other parties on topical issues (such as emissions abatement) and future legislation.

THE MARINE ENVIRONMENT

How we reduce our impact on the environment is described in the environment section of this CSR report. However, we also continue to support marine-related environmental causes such as Ocean Recovery Alliance and Project Kaisei, non-profit organisations that together seek to increase understanding of the scale and impact of debris in our oceans and how we can introduce solutions for both prevention and clean-up.

OTHER STAKEHOLDERS

In view of our strong business connection with Japan, we donated US$100,000 to the Tsunami relief and reconstruction efforts of The Nippon Foundation in 2011.

We encourage our staff to take their own initiative to help communities or causes which they feel passionate about. In 2011, a number of our staff raised significant donations totalling US$100,000 for causes such as:

- Oxfam Trailwalker (Jay K. Pillai and team raised over US$5,000)
- The Indochina Starfish Foundation (Andrew Broomhead raised US$72,000)
- The Christina Noble Children's Foundation and the Hong Kong Cancer Fund (Mark Hardy and friends raised over US$3,000)
- Climbing Mount Kinabalu for the Sailors' Society (Yoyo Chu, Alex Bollhorn and P. Subbiah raised over US$3,000)
- World Cancer Research Fund Hong Kong's "Fruity Friday" campaign (126 Hong Kong office staff raised US$1,000)
- The Santos Great Bike Ride for Charity (10 PB Towage staff raised over US$900)






Governance

RISK MANAGEMENT

Risk management plays an important and high level role in ensuring we achieve the long term vision and mission of Pacific Basin. It is embedded in our business functions and aims to prevent our strategies and objectives from being thrown off course and to enhance long term shareholder value.

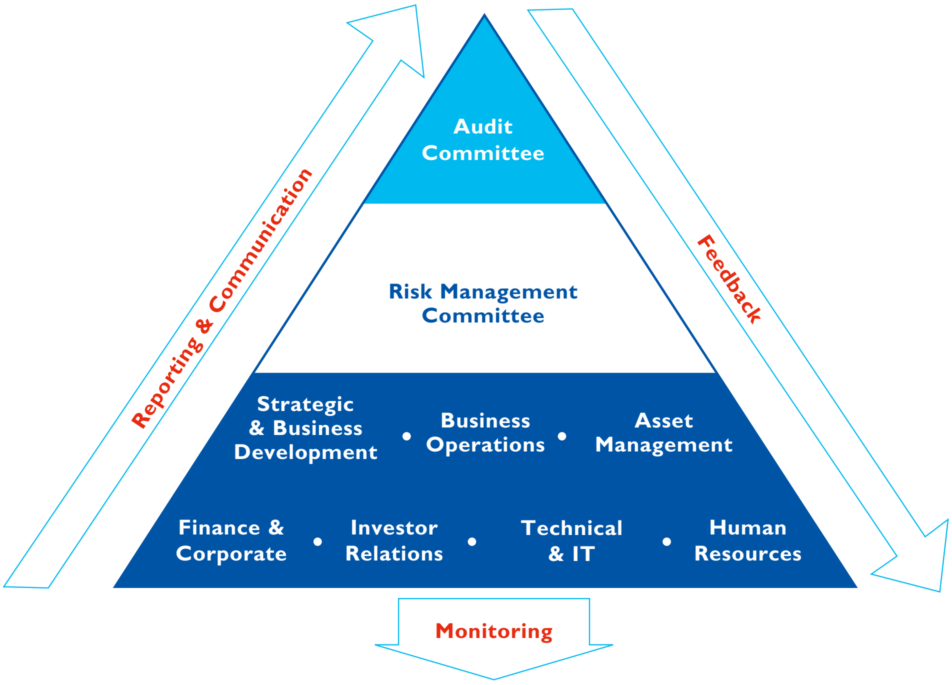
We are exposed to a variety of risks, which are summarised in the Group Overview section of this report. The risk management function helps management to understand and track our Group's risks and to formulate appropriate mitigating actions to protect our business, stakeholders, assets and capital.

RISK IDENTIFICATION AND OVERSIGHT STRUCTURE

The primary responsibility for risk identification and management lies with the respective business heads. The Risk Management Committee, reporting to the Audit Committee, is responsible for strengthening the Group's risk management culture and ensuring the overall framework of risk management is comprehensive and responsive to changes in the business. It regularly reviews the completeness and accuracy of risk assessments, risk reporting and the adequacy of risk mitigation efforts.

Annual assessments are carried out to identify, assess and manage risks. Identified risks and the corresponding mitigation measures are documented in our risk register.

The Risk Management Committee held four meetings during the year to review the status and findings of the risk management activities, discuss new risks identified and assess their related mitigation measures.



Financial Performance
- Market Risks
- Investment & Deployment Risk
- Credit & Counterparty Risk
- Insurance Risk
- Liquidity Risk
- Capital Management Risk

Relationships & Customer Satisfaction
- Customer Satisfaction & Reputation Risk
- Banking Relationships Risk

People and Skills
- Employee Engagement Risk

Safety, Environment & Reliability
- Safety Risk
- Environmental Risk
- Vessels & Systems Risk

Investor & Stakeholder Confidence
- Corporate Governance Risk
- Investor Relations Risk

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PRINCIPAL RISKS

Our business is susceptible to a diverse range of risks including those inherent to the shipping sector. The Group categorises these risks under headings driven by our key business driver groups.

RISKS TO FINANCIAL PERFORMANCE

Market Risks

Audited

Risk of adverse financial impacts due to:

- volatility of dry bulk, towage and RoRo vessel earnings;
- volatility in costs including fuel prices, interest rates and other operating costs; and
- exchange rate volatility.

Risk reduction measures

Audited

Earnings volatility

- We aim to secure long term cargo contracts for our dry bulk business to stabilise our main source of earnings.

Cost volatility

- Fuel represents a significant proportion of our costs and fluctuations in fuel prices would impact our financial results.
- Interest rate in relation to our interest-bearing bank loans can be volatile, which we manage in part by maintaining a balanced portfolio of floating and fixed interest rate loans.

Exchange rate volatility

- The functional currency of most of the Group's operating companies is the United States Dollar (USD) as the majority of our transactions are denominated in this currency. A major part of our exchange rate fluctuation risk arises from the purchase of vessels in non-USD denominated currency.

We use derivative instruments to manage volatility in dry bulk freight rates, fuel prices, interest rates and exchange rates.

p.118 Financial Statements – Note 14

Investment & Deployment Risk

Risk of inappropriate timing and choices of vessel investment and deployment can lead to an uncompetitive cost structure and reduced margins.

The value of our vessels may vary significantly through shipping cycles, and we need competitively priced and high quality vessels to provide our services to customers.

Risk reduction measures

We evaluate potential investments and divestments based on relevant market information, estimated future earnings and residual values to maximise returns to shareholders. We adopt a flexible ownership/leasing strategy that is aligned with shipping cycles, and we consider the following as high priorities:

- Securing newbuilding contracts with leading, reputable and financially viable newbuilding shipyards;
- Engaging in sale and charter back of vessels while retaining operational control of the vessels;
- Transacting secondhand deals with creditworthy counterparties; and
- Maintaining an active fleet renewal programme.

Audited Audited information

Credit & Counterparty Risk

Audited

Risk of financial loss resulting from the default or failure of counterparties to meet their contractual obligations. These counterparties include:

- dry bulk, towage and RoRo chartering counterparties;
- newbuilding shipyards;
- derivative counterparties; and
- banks and financial institutions.

Risk reduction measures

Audited

Our global network of offices positions us close to our customers allowing us to better know them, thus minimising the risk of counterparty failure. In addition, we take measures to limit our credit exposure including:

- securing a diversified profile of counterparties with successful track records and sound credit ratings;
- actively assessing the creditworthiness of counterparties; and
- obtaining refund guarantees from the shipyards.

The management of trade receivables and credit policy are set out in the Financial Statement section.

p.125-126 Financial Statements – Note 15(c)

Insurance Risk

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

Risk reduction measures

We implemented measures to ensure safe operations across our companies and fleets which have positively impacted our performance in safety.

p.49 CSR – Health & Safety

However, accidents do happen, and so we place insurance covers at competitive rates in marine insurance products, including hull and machinery, war risk, protection and indemnity, freight demurrage and defense cover, etc. Sufficiency of insurance cover is regularly evaluated and adjusted in line with prevailing asset values and in compliance with loan covenants and internal policies.

Liquidity Risk

Audited

Risk of not maintaining sufficient financial resources (such as bank borrowing facilities) to meet the Group's payment obligations as they fall due.

Risk reduction measures

Audited

We regularly review our Group's treasury policy to ensure:

- sufficient funds are available to meet our existing and future commitments; and
- compliance with covenants of bank loans, finance lease agreements and convertible bonds.

p.145 Financial Statements – Note 33

Capital Management Risk Audited

Weakness in our financial management capability and insufficient capital would impact our ability to operate as a going concern, provide adequate returns to shareholders, and benefit other stakeholders to support our Group's stability and growth.

p.9 Financial Summary

Risk reduction measures Audited

We conduct regular reviews to ensure an optimal capital structure that delivers adequate shareholder returns after taking into consideration:

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

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

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

RISKS TO RELATIONSHIPS AND CUSTOMER SATISFACTION

Customer Satisfaction & Reputation Risk

Poor service could lead to loss of customers. Adverse impacts to our brand value and reputation as a trusted counterparty may restrict our access to customers, cargoes, high quality vessels, funding and talent.

Risk reduction measures

Our global office network positions us closer to our customers enabling a clear understanding of their needs and first-rate, localised customer service. A large, modern, uniform fleet and a comprehensive in-house technical operations function enhance our ability to deliver a high-quality, reliable service. Frequent customer engagement enhances customer satisfaction.

Banking Relationships Risk

Poor relationships with banks may reduce our ability to access to funding sources.

Risk reduction measures

We have a dedicated treasury function tasked with developing and maintaining relationships with a diverse group of reputable banks worldwide. These relationships are maintained and augmented through regular senior management contact and consistent compliance with our loan obligations. These relationships are renewed and reassessed on an ongoing basis.

RISKS TO PEOPLE AND SKILLS

Employee Engagement Risk

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

Risk reduction measures

Group HR and Crewing departments are tasked with recruiting and maximising engagement of staff ashore and at sea.

- We use diversified manning sources for seafarers.
- We offer regular training for staff ashore and at sea.
- We implement annual staff performance appraisals and incentives and other HR initiatives to encourage, retain and otherwise engage staff.

p.50 CSR – Development & Training

RISKS TO SAFETY, ENVIRONMENT AND RELIABILITY

Safety Risk

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

Risk reduction measures

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

p.49 CSR – Health & Safety

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

Environmental Risk

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

Risk reduction measures

Emissions risk
We are at the forefront of efforts in our sector to reduce emissions. Such emissions reduction efforts include initiatives to improve engine performance and hull and propulsion hydrodynamics, and to adopt fuel-efficient operational measures.

p.46 CSR – Ship-based environmental initiatives

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

Vessels & Systems Risk

The reliability of our operational performance depends on the effective deployment of our vessels and the dependability of our systems and technology.

Failure to operate and utilise reliable vessels, equipment and systems could result in vessel down-time, service disruption and disruption to communications.

Risk reduction measures

Vessels operational risk
We operate high-quality vessels built by reputable shipyards which we maintain to a high standard under our ISM Code compliant "Pacific Basin Management System" to assure safety and reliability of service.

Systems risk
Regular meetings of our IT Governance Committee to oversee the Group's IT policies and procedures ensure that our IT strategies are met. Preventive or contingency measures are in place to minimise the risk of system failures and to promptly address system breakdowns. Our IT team receives regular technical training and our general staff are regularly updated of IT policies and system upgrades.

RISKS TO INVESTOR & STAKEHOLDER CONFIDENCE

Corporate Governance Risk

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

Risk reduction measures

The Group commits to achieve and maintain high standards of corporate governance consistent with the needs and requirements of the business and its stakeholders, and consistent with the Code on Corporate Governance Practices of the Stock Exchange of Hong Kong Limited.

p.64 Corporate Governance

Investor Relations Risk

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

Risk reduction measures

The Group has a dedicated investor relations function as well as policies and guidelines on communication and disclosure of information to the public. Latest company news and financial information are disclosed on our website which is updated regularly. Our strong performance in this area has won us several investor relations awards in recent years.

website Investor Relations

Pacific Basin is committed to achieving and maintaining high standards of corporate governance consistent with the needs and requirements of the business and its stakeholders, and consistent with the Code on Corporate Governance Practices (the "Code") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Throughout the year the Group has complied with all code provisions of the Code, as contained in Appendix 14 of the Listing Rules. The Group continues to adopt the recommended best practices under the Code; however there are areas where full implementation is not considered appropriate, including the following:

- The Group provides a quarterly trading update to enable its shareholders to assess its performance, financial position and prospects. This is instead of publishing quarterly results, as the Group believes a trading update gives its shareholders the key quarterly information to assess the development of its business; and
- The Group seeks continuous improvement in the effectiveness of its internal control procedures. Responsibility lies with the Risk Management Committee ("RMC") headed by the Chief Executive Officer. The RMC's activities are reviewed at least twice a year by the Audit Committee. The Audit Committee is satisfied that the internal audit of the controls environment is adequately covered by the system of internal reviews, where the Risk Manager and appropriate staff from various departments carry out formal internal control reviews in functions other than their own. The Audit Committee continuously assesses the need for any changes in the internal audit function as the Group develops.

Following publication of the Consultation Conclusions on Review of the Corporate Governance Code and Associated Listing Rules by the Stock Exchange in October 2011, the Group has taken necessary steps to implement and procure compliance with all those Listing Rules amendments which have become effective since 1 January 2012 and has commenced the assessment and implementation of the new Code which will come into effect on 1 April 2012.

THE BOARD OF DIRECTORS

BOARD COMPOSITION AND RESPONSIBILITIES

As at the date of this Annual Report, the Board comprises five Executive Directors, one Non-executive Director and four Independent Non-executive Directors. Mr. Klaus Nyborg, the Chief Executive Officer has tendered his resignation with effect on 15 March 2012.

The roles and responsibilities of each Board member are clearly set out and are available on the Company's website. The biographical details of the Directors are set out in the "Directors and Senior Management" section of this Annual Report.

The four Independent Non-executive Directors and one Non-executive Director together play a key role in protecting shareholders' interests. They bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contribute to the effective strategic management of the Group.

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

In accordance with the Company's Bye-laws, at each annual general meeting one-third of the Directors (rounded up if the number is not a multiple of three) shall retire from office by rotation. Please refer to the Report of the Directors for the composition of the Board and Board Committees and the terms of appointment of each Director.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The posts of Chairman and Chief Executive Officer (CEO) are held by Messrs. David M. Turnbull and Klaus Nyborg respectively and their roles and responsibilities are separate and are set out in writing. As mentioned above, Mr. Nyborg's resignation will take effect on 15 March 2012. The Board expects to have announced the appointment of the new CEO by the end of March 2012.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

Pursuant to the requirement of the Listing Rules, the Company has received written confirmation from all four Independent Non-executive Directors of their independence from the Company and considers them to be independent.

THE BOARD

Accountable to	• The Shareholders of the Company
Primary Responsibilities	• approve Pacific Basin's long term corporate strategies • make broad policy decisions • oversee the management of the Group • approve annual budgets and business plans • financial statements of the Group • evaluate the performance of the Group • periodically assess the achievement of targets set by the Board
Approves	• acquisitions or disposals or other transactions that require shareholders notification or requiring shareholders approval under the Listing Rules • developments in the strategic direction of the Group • matters involving a conflict of interest for a substantial shareholder or Director
Delegates to	• Board Committees: detailed evaluation of certain responsibilities (outlined later in this section) • Executive Directors: oversight of the Group's business operations; implementation of strategies laid down by the Board; and the making of day-to-day operating decisions
Chairman Mr. David M. Turnbull	Responsible for: • considering and approving Group strategies and policies in conjunction with the Board and overseeing their subsequent execution by management • setting Group management principles, particularly regarding the control of risks and overall governance • ensuring that he and his delegates shall, in the capacity of Chairman, comply with the responsibilities under the Code
Chief Executive Officer Mr. Klaus Nyborg	Responsible for: • general day to day management and execution of the Group's activities and strategic initiatives • formulating and proposing Group strategy and policy to the Board • ensuring that appropriate information is circulated regularly so that Board members can actively contribute to the Group's development

BOARD COMMITTEES

The Board has established Audit, Remuneration and Nomination Committees in accordance with the Code and all members of these 3 Committees are Independent Non-executive Directors. The Board has also established an Executive Committee to streamline the decision making process of the Company in certain circumstances. Decisions made by the Board and the Board Committees are based on detailed analysis prepared by management. The terms of reference of these Board Committees are available on the Company's website.

Board, Board Committee Meetings and Annual General Meeting in 2011

The Board met on 4 occasions during 2011. The attendance of each Director at the Board, its Committees' meetings and the AGM are set out below.

		Meetings Attended				
		Board	Audit Committee	Remuneration Committee	Nomination Committee	AGM
Executive Directors	David M. Turnbull	4				1
	Klaus Nyborg	4				1
	Jan Rindbo	4				1
	Andrew T. Broomhead	4				1
	Wang Chunlin	4				1
Non-executive Director	Richard M. Hext	4				–
Independent Non-executive Directors	Patrick B. Paul	4	4	1	1	–
	Robert C. Nicholson	4	4	1	1	1
	Alasdair G. Morrison	2	3	1	1	1
	Daniel R. Bradshaw	4	4	1	1	–
No. of Meetings held during the year		4	4	1	1	1

THE AUDIT COMMITTEE

MEMBERSHIP

The Audit Committee consists of all four Independent Non-executive Directors.
Chairman: Patrick B. Paul

MAIN RESPONSIBILITIES

- reviews financial statements and auditors' reports and monitors integrity of financial statements;
- reviews effectiveness of the financial reporting system and internal control procedures; and
- formulates policies on auditors engagement, approval of auditors' remuneration, audit procedures and any other matters arising from the above.

WORK DONE IN 2011

The Audit Committee held four meetings during the year and its work included the review of the following:

- continuing connected transactions for the year ended 31 December 2010 and for the six months ended 30 June 2011;
- independence of all Independent Non-executive Directors;
- Risk Management Committee Reports and Internal Control updates;
- external auditors' Internal Control Memorandum;
- accounting treatment for the issuance and repurchase of convertible bonds;
- proposed impairment for RoRo vessels in the 2011 interim report;
- treasury position and proposed amendments to the Group's treasury manual;
- external auditors' Audit Strategy Memorandum;
- presentation of the implementation of a new operational system;
- external auditors' Audit Committee Report in respect of the 2010 full year audit and 2011 interim review;
- 2010 draft annual report and annual results announcement with a recommendation to the Board for approval;
- 2011 interim report;
- proposed dividend for 2010 final dividend and 2011 interim dividend;
- proposed Risk Management work plan for 2012;
- internal audit function in regard to the Group's business development; and
- Group's insurance strategies and policies.

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

THE REMUNERATION COMMITTEE

MEMBERSHIP

The Remuneration Committee consists of all four Independent Non-executive Directors.
Chairman: Robert C. Nicholson

MAIN RESPONSIBILITIES

- makes recommendations to the Board on policy and structure of remuneration for all Directors, Senior Management and the establishment of a formal and transparent procedure for developing this policy;
- determines the specific remuneration packages for (i) Executive Directors, (ii) Senior Management and (iii) Employees earning the equivalent of US$20,000 per month or above, taking into consideration factors such as salaries paid by comparable companies and responsibilities of the individuals;
- reviews and approves the compensation payable to Executive Directors and Senior Management in connection with any appointment or termination of their offices to ensure that such compensation is determined in accordance with relevant contractual terms and is fair and not excessive for the Company;
- makes recommendations to the Board for the remuneration of Non-executive Directors;
- reviews and approves performance-based remuneration and administers and oversees the Group's Long Term Incentive Scheme; and
- ensures that no Director is involved in deciding his own remuneration.

WORK DONE IN 2011

The Remuneration Committee met once during the year and its work included the following:

- approval of 2010 year end bonuses and 2011 salary adjustments for Executive Directors, Senior Management and higher paid employees;
- approval of the grant of restricted share awards under the Long Term Incentive Scheme to Executive Directors and staff members;
- approval of the contract arrangement of an Executive Director; and
- approval of the increment of remuneration of an Executive Director during the year.

THE NOMINATION COMMITTEE

MEMBERSHIP

The Nomination Committee consists of all four Independent Non-executive Directors.
Chairman: Robert C. Nicholson

MAIN RESPONSIBILITIES

- selects and nominates directors for approval by the Board based on, among other things, appropriate industry experience and professional knowledge, integrity, interpersonal skills, and the candidates' commitment to the Company and Board;
- oversees the nomination of Directors to the Board ensuring that all such nominations are fair and transparent and that the Board benefits from the right balance of skills, experience and knowledge to govern effectively; and
- reviews the structure, size and composition of the Board, paying regard to the Stock Exchange board composition rules.

WORK DONE IN 2011

The Nomination Committee met once during the year and reviewed and considered the following:

- composition of the Board taking into consideration the expertise and experience of the existing Board members;
- process of appointing a new CEO;
- adequacy of the number of independent directors by reference to the requirement of the Company and the Stock Exchange regulations;
- independence of each Independent Non-Executive Director;
- certain imminent changes to the Listing Rules;
- requirement that directors should have adequate training and maintain training records;
- requirement that directors should maintain a proper records of their outside interests and other matters relevant to the role as directors; and
- resolved to implement required changes and adopt appropriate procedures following the recent amendments to the Listing Rules.

THE EXECUTIVE COMMITTEE

MEMBERSHIP

The Executive Committee consists of all five Executive Directors.
Chairman: Klaus Nyborg

MAIN RESPONSIBILITIES

- identifies and executes transactions for vessel acquisitions or disposals that do not require shareholders notification or approval under the Listing Rules;
- identifies and executes the sale and charter back of vessels;
- identifies and executes transactions for long term inward charters;
- sets cover position targets which are within the normal course of the business of the Group;
- makes decisions over commencement or cessation of employment and ongoing remuneration of key staff; and
- exercises the Company's general mandate to repurchase shares in accordance with the parameters set by the Board and the limits approved by the shareholders.

WORK DONE IN 2011

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

- disposal of the entire investment in Green Dragon Gas;
- approval of an announcement on the conversion price adjustment of the 3.3% coupon 2016 Convertible Bonds;
- approval of an announcement relating to the intention of Mr. Klaus Nyborg to resign;
- approval of the second supplemental agreement for a loan facility made to the Group;
- acquisition of a number of vessels that did not require announcement under the Listing Rules; and
- approval of long term cargo contracts for the dry bulk division and charter out of a RoRo vessel.

INTERNAL CONTROLS

FRAMEWORK

The Board has overall responsibility for the Group's system of internal control and the assessment and management of risks.

The Group's Risk Management Committee ("RMC") which is headed by the Company's Chief Executive Officer, actively identifies and reviews significant risks of the Group. Its objective is to strengthen the Group's risk management culture and to minimise the sensitivity of the Group's earnings to the risks it faces.

The system of internal controls is designed to provide reasonable, but not absolute, assurance against human error, material misstatement, losses, damages or fraud. Please also refer to the "Risk" section of this Annual Report.

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

CONTROL ENVIRONMENT

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

RISK ASSESSMENT

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

CONTROL ACTIVITIES

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

INFORMATION AND COMMUNICATION

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

MONITORING

The Group adopts a control and risk self-assessment methodology, continuously assessing and managing its business risks by way of internal audits, and communication of key control procedures to employees. The Risk Management Committee is tasked with the responsibility to assess the performance and effectiveness of the controls on a systematic basis. Findings of the assessments are submitted to the Audit Committee.

ANNUAL ASSESSMENT

Activities, procedures, existing controls and new controls to be implemented are documented in the risk registers. The existence and effectiveness of the existing control procedures are tested with a frequency determined by reference to the risk ranking of each individual risk area. All control procedures of significant risks are tested annually and others are reviewed annually.

The criteria for assessing the effectiveness of internal controls are based on whether the documented control processes have operated throughout the period being reviewed, and identifying whether there are any control weaknesses. The Risk Manager, on behalf of the RMC, co-ordinates the annual testing of control procedures in respect of all significant Group risks with findings reported to the RMC and the Audit Committee. This work is carried out by the Risk Manager and appropriate staff from various departments who test the controls of functions other than their own.

INTERNAL CONTROL SYSTEM EFFECTIVENESS

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The internal controls' system is designed for the identification and management of risks that are significant to the fulfillment of the Group's business objectives. The Audit Committee reviews the findings and the opinion of the RMC on the effectiveness of the Group's system of internal control and reports to the Board annually.

In respect of the year ended 31 December 2011, the Board has reviewed the internal control systems of the Group and no significant areas of concern were identified.

CONTROLS ON PRICE-SENSITIVE INFORMATION

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

- the Group is fully aware of its obligations under the Listing Rules;
- the Group conducts its affairs with close regard to the "Guide on Disclosure of Price-sensitive Information" issued by the Stock Exchange in 2002;
- through channels such as financial reporting, public announcements and websites, the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public;
- the Group has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or insider information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Corporate Communication & Investor Relations Manager are authorised to communicate with parties outside the Group.

DIRECTORS' SECURITIES TRANSACTIONS

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

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

SENIOR MANAGEMENT AND STAFF SECURITIES TRANSACTIONS

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

No incident of non-compliance by these senior managers and staff was noted by or reported to the Company during the year.

DIRECTORS AND SENIOR MANAGEMENT – REMUNERATION AND SHARE OWNERSHIP

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

AUDITORS' REMUNERATION

Remuneration paid to the Group's external auditors for services provided for the year ended 31 December 2011 is as follows:

		US$'000
Audit	Non-audit	Total
1,439	247	1,686

SHAREHOLDERS' RIGHTS

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may send an e-mail or letter to:

Company Secretary

Address: Pacific Basin Shipping (HK) Ltd.
7th Floor, Hutchison House
10 Harcourt Road
Central, Hong Kong
E-mail: companysecretary@pacificbasin.com

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

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

p.87 2011 Shareholders Meeting

Directors & Senior Management





	Executive Directors				
	David M. Turnbull *Chairman* *age 56*	**Klaus Nyborg** *Chief Executive Officer* *age 48*	**Jan Rindbo** *Chief Operating Officer* *age 37*	**Andrew T. Broomhead** *Chief Financial Officer & Company Secretary* *age 50*	**Wang Chunlin** *Executive Director,* *age 48*
Biography	David spent 30 years with the Swire Group where he held various senior management positions. He was chairman of Swire's Hong Kong-listed companies Swire Pacific, Cathay Pacific Airways and Hong Kong Aircraft Engineering Company. He has also served as a non-executive director of the Hongkong and Shanghai Banking Corporation, Hysan Development and Air China.	Klaus joined Pacific Basin as an Executive Director and Deputy Chief Executive Officer in 2006, and was appointed Chief Executive Officer in January 2010. Klaus spent 12 years with A.P. Moller-Maersk where he held a number of senior management posts including general manager corporate secretariat, general manager and regional CFO of Maersk Sealand for Europe/Africa, VP/regional CFO and head of corporate affairs for Asia, Oceania and the Middle East, and CFO and director of Maersk Logistics International. He joined Danish ship owning and operating group TORM (listed in Copenhagen and on NASDAQ) where he was CFO and an executive director until joining Pacific Basin.	Jan joined Pacific Basin in 2001 under secondment from TORM to head Pacific Basin's chartering and commercial operations. He became fully employed by the Group in 2004 and was appointed Chief Operating Officer in January 2010 with responsibility for the Company's dry bulk activities including asset management (sale and purchase) and the technical and commercial operations of the Group's dry bulk fleet. Jan spent seven years with Danish ship owning and operating group TORM (listed in Copenhagen and on NASDAQ) for whom he served in Denmark, Hong Kong and the United States.	Andrew joined Pacific Basin in 2003 as the Group's Chief Financial Officer and Company Secretary. He was appointed as an Executive Director in September 2010 with responsibility for Group finance and accounting, investor relations, corporate governance and compliance and IT. Andrew has previously worked with Deloitte, Haskins & Sells, Samuel Montagu, International Finance Corporation, Bakrie Investindo and Sanwa International Finance. He has been based in the UK, USA, Singapore, Indonesia and Hong Kong, and has worked in Asia for over 18 years.	CL Wang joined Pacific Basin in March 2006 and was shortly after appointed as an Executive Director with responsibility for group business development with a focus on China. CL has been in shipping since joining the Sinotrans Group in Beijing in 1986. From 1993 to 1995, he served as managing director of Sinotrans' joint venture International Container Leasing Company. In 2002, he was promoted to assistant president of Sinotrans Group and managing director of Sinotrans Shipping. In 2005, he joined IMC Group where he was managing director of IMC Marine Holdings (HK) Ltd and vice chairman of IMC-Yongyue Shipyard & Engineering.
Education & qualifications	Cambridge University: honours degree in Economics	Copenhagen Business School: Diploma (Econ) and Bachelor of Arts and MSc degrees in Business and Business Law Executive programmes at London Business School and IMD Business School	Naestved Business College, Denmark International Executive Development programme at INSEAD	Cambridge University: Master of Arts degree in Natural Sciences Fellow of the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales Breakthrough Programme for Senior Executives at IMD Business School	University of International Business and Economics, Beijing Murdoch University, Australia: MBA degree Hong Kong Polytechnic University: MSc degree in International Shipping and Transport Logistics Breakthrough Programme for Senior Executives at IMD Business School
Term of office	Appointed INED in May 2006 Appointed Chairman in January 2008 and Executive Director in July 2008 Current term expires by May 2014	Klaus has tendered his resignation from the Company effective 15 March 2012	Appointed Executive Director in April 2007 Current term expires at the AGM in 2012	Appointed Executive Director in September 2010 Current term expires by September 2013	Appointed Executive Director in September 2006 Current term expires by September 2013
External appointments	INED of Green Dragon Gas and Greka Drilling Limited (both London AIM listed) INED of Hong Kong-listed Sands China Chairman of Seabury Aviation and Aerospace Asia (Hong Kong), a subsidiary of Seabury Group LLC	None	None	None	None
Committee membership	Executive Committee	Chairman of Executive Committee	Executive Committee	Executive Committee	Executive Committee

	Non-executive Director	***Independent Non-executive Directors ("INEDs")***			
	Richard M. Hext *Non-executive Director* *age 54*	**Robert C. Nicholson** *Independent Non-executive Director* *age 56*	**Patrick B. Paul** *Independent Non-executive Director* *age 64*	**Alasdair G. Morrison** *Independent Non-executive Director* *age 63*	**Daniel R. Bradshaw** *Independent Non-executive Director* *age 65*
Biography	Richard is chairman of the Vanderperre family shipping interests and has been with Vanderperre since January 2010. Prior to that he was Executive Deputy Chairman (2005 to 2006) and CEO (2006 to 2009) of Pacific Basin Shipping. From 2003 to 2004, he was CEO of the Marine Services Division of V Ships and, from 2001 to 2002, he was CEO of Levelseas. From 1978 to 2000, he worked for various subsidiaries and associates of John Swire & Sons, including The China Navigation Company where he was managing director from 1996 to 2000. During 1999 to 2000 he was a director of John Swire & Sons (HK).	Robin was a senior partner of Richards Butler where he established the corporate and commercial department. He then served as a senior advisor to the board of directors of PCCW Limited. He joined First Pacific Company Limited's (First Pacific) board in June 2003 and was appointed as an executive director of First Pacific in November 2003.	Patrick served with PricewaterhouseCoopers for 33 years, during which time he held a number of senior management positions in Hong Kong, including chairman and senior partner of the firm for seven years.	Alasdair served with the Jardine Matheson Group where he held various senior positions including that of group managing director. He then moved to Morgan Stanley where he was a managing director and then chairman of Morgan Stanley Dean Witter Asia, and chairman and chief executive officer of Morgan Stanley Asia.	Dan has served for 33 years with Johnson, Stokes and Master (now Mayer Brown JSM) as a solicitor, partner, head of the firm's shipping practice and now as a consultant. He was vice chairman of the Hong Kong Shipowners Association, a member of the Hong Kong Port and Maritime Board and the Hong Kong Maritime Industry Council.
Education & qualifications	Oxford University: Master of Arts degree Executive programmes at INSEAD, Oxford University, Tsinghua University and Stanford University	University of Kent Qualified as a solicitor in England and Wales and in Hong Kong	Oxford University Qualified accountant	Cambridge University: Master of Arts degree Program for Management Development at Harvard Business School	Victoria University of Wellington (New Zealand): Bachelor of Laws and a Master of Laws Admitted as a solicitor in New Zealand, England and Hong Kong
Term of office	Appointed Executive Director in April 2005 Became a Non-executive Director after stepping down as CEO on 31 December 2009 Current term expires at the AGM in 2013	Appointed INED in March 2004 Current term expires at the AGM in 2014	Appointed INED in March 2004 Current term expires at the AGM in 2013	Appointed INED in January 2008 Current term expires at the AGM in 2013	Appointed Non-executive Director and Deputy Chairman in April 2006 Stood down as Deputy Chairman in January 2008 and was re-designated as INED in September 2010 Current term expires at the AGM in 2014
External appointments	Non-executive director of The China Navigation Company, a wholly owned subsidiary of John Swire & Sons	Executive director of First Pacific Director of Metro Pacific Investments Corporation, Philex Mining Corporation, and Philex Petroleum Corporation Executive chairman of Forum Energy plc Commissioner of PT Indofood Sukses Makmur Tbk. INED of QPL International Holdings Limited	INED of Johnson Electric Holdings INED of The Hongkong and Shanghai Hotels	Senior advisor to Citigroup Asia Pacific and a member of the firm's Business Development Committee Non-executive director of MTR Corporation, Hong Kong Mercantile Exchange and Grosvenor Group	Director on the boards of Euronav, IRC, Kadoorie Farm and Botanic Garden Corporation, and WWF Hong Kong
Committee membership	None	Chairman of Remuneration and Nomination Committees Member of Audit Committee	Chairman of Audit Committee Member of Remuneration and Nomination Committees	Audit, Remuneration and Nomination Committees	Audit, Remuneration and Nomination Committees

	Senior Management		
	Charles G. Maltby *Managing Director, UK; Director, Handymax* *age 40*	**Chanakya Kocherla** *Group Managing Director, PB Towage* *age 54*	**Morten H. Ingebrigtsen** *Director, Asset Management* *age 50*
Biography	Charles joined Pacific Basin in London in 2005 to expand the Company's handymax activities. He is now responsible for the Group's combined dry cargo business in the Atlantic region. He began his shipping career with Mobil Shipping before joining the chartering team of BHP Transport. Following three years in Australia as senior chartering officer responsible for handysize and handymax chartering, he returned to London in 2000 to take up a senior capesize and panamax chartering position and, in 2001, moved to The Hague to establish the handysize and handymax chartering and trading desk for BHP Billiton.	Chanakya Kocherla joined Pacific Basin in December 2000 as part of the Company's acquisition of Jardine Ship Management and, since 2010, is Group Managing Director of PB Towage. He was previously Managing Director of PB Maritime Services and Director, Fleet - responsible for operations of Pacific Basin's owned and technically managed fleet (including technical operations, manning and training, quality, health, safety and the environment, and newbuildings). Charlie has 33 years of industry experience including 14 years at sea and experience with several ship types both at sea and ashore.	Morten joined Pacific Basin in Hong Kong in January 1989 and re-joined the current Pacific Basin in 1999. He is in charge of the Group's vessel asset management and newbuilding activities. He started his career with major Norwegian shipping group Wilh. Wilhelmsen where he gained experience in the sale and purchase of ships, new project analysis (for bulk carrier and tanker projects) and investor liaison.
Education & qualifications	University of Plymouth (UK): BSc in Maritime Business Advanced Management Programme at INSEAD Member of the Institute of Chartered Shipbrokers	Trained as a marine engineer at India's Directorate of Marine Engineering Training Obtained Class I Certificate of Competency (Motor) from the College of Maritime Studies, Southampton Various executive development programmes in Hong Kong, Singapore and the IMD Business School	Norwegian School of Management: Masters degree in General Business

This Remuneration Report sets out the Group's remuneration policies and amounts for all staff including Executive Directors, Non-executive Directors and senior management. Sections 2, 3 and 4 comprise the auditable part of the Remuneration Report and form an integral part of the Group's financial statements.

At 31 December 2011, the Group employed a total of 389 full time, shore based staff (2010: 375).

I. GROUP'S REMUNERATION POLICY

The Board, through the Remuneration Committee, seeks to attract and retain staff with the skills, experience and qualifications needed to manage and grow the business successfully by providing remuneration packages that are competitive, accord with market practice, reward short-term as well as long-term performance and align interests with those of shareholders.

Below sets out the key components of remuneration:

Key components	All staff and senior management	Executive Directors	Non-executive Directors
Fixed base salary	Yes. Takes into consideration prevailing market conditions and local market practice as well as the individual's role, duties, experience and responsibilities.		No
Annual discretionary cash bonus	Yes. Bonuses are determined based on the overall performance of the individual and the Group. Bonuses for Executive Directors and senior management are assessed by the Remuneration Committee and those of all other staff are assessed by the Chief Executive Officer.		No
Long term equity incentives	Yes. Awards typically vest annually over a three to five year period. New Awards are considered each year by the Remuneration Committee to maintain the incentive period.		No
Retirement benefit	Yes	Yes	No
Fixed annual director's fee	No	No	Yes

Equity awards are provided through the Company's Long Term Incentive Scheme which is designed to provide Executive Directors, senior management and other employees with long term financial benefits that are aligned to and consistent with increasing shareholder value.

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

2. REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2011

(This section represents audited information)

	Directors' fee US$'000	Salaries US$'000	Bonuses US$'000	Retirement benefit costs US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged US$'000
Executive Directors							
David M. Turnbull	–	349	160	2	511	199	710
Klaus Nyborg	–	695	406	2	1,103	413	1,516
Jan Rindbo	–	495 [1]	313	1	809	279	1,088
Andrew T. Broomhead	–	405	240	2	647	170	817
Wang Chunlin	–	352	132	34	518	227	745
	–	2,296	1,251	41	3,588	1,288	4,876
Non-executive Directors							
Richard M. Hext	48	–	–	–	48	–	48
Independent Non-executive Directors							
Robert C. Nicholson	89	–	–	–	89	–	89
Patrick B. Paul	94	–	–	–	94	–	94
Alasdair G. Morrison	83	–	–	–	83	–	83
Daniel R. Bradshaw	83	–	–	–	83	–	83
	397	–	–	–	397	–	397
Total Director's remuneration	397	2,296	1,251	41	3,985	1,288	5,273
Senior Management	–	958	489	160	1,607	330	1,937
Other Employees	–	28,951	5,524	2,105	36,580	2,595	39,175
Total remuneration	397	32,205	7,264	2,306	42,172	4,213	46,385

Note: (1) Includes a director's fee of US$40,000.

The five individuals whose emoluments were the highest in the Group include four Executive Directors (2010: five) and one senior manager. The emoluments of the one senior manager fell within the band of HK$6,500,001 to HK$7,000,000 (US$833,333 to US$897,436).

During the year, the Group did not pay the Directors any inducement to join or upon joining the Group. No Directors waived or agreed to waive any emoluments during the year.

The median salary of employees excluding the Chief Executive Officer during the year was US$61,000. In view of the challenging market conditions and our weaker group results, cash bonuses payable to Executive Directors were reduced by approximately 33% overall. Cash bonuses payable to all other staff were reduced by approximately 22% overall.

In addition, certain Other Employees benefit from a profit sharing arrangement whereby an amount of USD4,924,000 is expected to be payable. This amount combined with the above total remuneration form the total employee benefit expenses as presented in Note 5 to the financial statements.

3. REMUNERATION FOR THE YEAR ENDED 31 DECEMBER 2010

(This section represents audited information)

	Directors' fee US$'000	Salaries US$'000	Bonuses US$'000	Retirement benefit costs US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged US$'000
Executive Directors							
David M. Turnbull	–	350	233	2	585	204	789
Klaus Nyborg	–	696	637	2	1,335	344	1,679
Jan Rindbo	–	501	520	2	1,023	293	1,316
Andrew T. Broomhead[1]	–	359	312	2	673	156	829
Wang Chunlin	–	354	175	26	555	262	817
	–	2,260	1,877	34	4,171	1,259	5,430
Non-executive Directors							
Richard M. Hext[2]	32	–	–	–	32	–	32
Dr, Lee Kwok Yin, Simon[3]	6	–	–	–	6	–	6
Independent Non-executive Directors							
Robert C. Nicholson	81	–	–	–	81	–	81
Patrick B. Paul	81	–	–	–	81	–	81
Alasdair G. Morrison	81	–	–	–	81	–	81
Daniel R. Bradshaw[4]	81	–	–	–	81	–	81
	362	–	–	–	362	–	362
Total Directors' remuneration	362	2,260	1,877	34	4,533	1,259	5,792
Senior Management	–	1,123	608	157	1,888	452	2,340
Other Employees	–	24,963	4,534	1,676	31,173	2,200	33,373
Total remuneration	362	28,346	7,019	1,867	37,594	3,911	41,505

Note:

(1) Mr. Broomhead, the Chief Financial Officer and Company Secretary of the Company was appointed as an Executive Director on 1 September 2010. The above represents his remuneration for the full year.
(2) Mr. Hext resigned as an Executive Director on 31 December 2009. He was appointed as a Non-executive Director on 1 January 2010.
(3) Dr. Lee ceased to be a Director on 18 February 2010.
(4) Mr. Bradshaw was re-designated as an Independent Non-executive Director from a Non-executive Director on 1 September 2010.

The five individuals whose emoluments were the highest in the Group were the five Executive Directors.

4. ACCOUNTING POLICIES ON EMPLOYEE BENEFITS

(This section represents audited information)

BONUSES

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

RETIREMENT BENEFIT OBLIGATIONS

MANDATORY PROVIDENT FUND SCHEME

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

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The Group also makes voluntary contribution in addition. The Group's contributions to the scheme are expensed as incurred. When employees leave the scheme prior to the full vesting of the employer's voluntary contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

OTHER DEFINED CONTRIBUTION SCHEMES

The Group also operates a number of defined contribution retirement schemes outside Hong Kong in accordance to local statutory requirements. The assets of these schemes are generally held in separate administered funds and are generally funded by payments from employees and by the relevant group companies.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to contributions being fully vested.

SHARE-BASED COMPENSATION

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

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

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

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

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2011.

PRINCIPAL ACTIVITIES, ANALYSIS OF OPERATIONS AND FINANCIAL SUMMARY

The principal activity of the Company is investment holding. The Company's principal subsidiaries (set out in Note 38 to the financial statements) are principally engaged in the provision of dry bulk shipping services, services to the energy and infrastructure sectors, and RoRo shipping services which are carried out internationally. In addition, the Group is engaged in the management and investment of the Group's cash and deposits through its treasury activities.

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in the "Group Financial Summary" section of this Annual Report.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated income statement on page 94.

As set out in the interim report, the Board remains committed to the existing dividend policy of paying out a minimum of 50% of annual profits attributable to shareholders excluding vessel disposal gains.

Taking into consideration of the Group's performance and current financial position, the Directors have recommended the payment of a final dividend of HK 5 cents per share for the year ended 31 December 2011. When this proposed dividend is aggregated with the interim dividend of HK 5 cents per share declared on 3 August 2011, the total payout of HK 10 cents per Share represents 78% of the Group's profits for the year ended 31 December 2011.

The proposed final dividend for 2011 of HK 5 cents per share will be considered at the 2012 Annual General Meeting scheduled on 19 April 2012.

RESERVES AND DISTRIBUTABLE RESERVES

Distributable reserves of the Company at 31 December 2011, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$696.0 million.

Movements in the reserves of the Group and of the Company are set out in Note 24 to the financial statements.

DONATIONS

Charitable and other donations made by the Group during the year amounted to US$156,000.

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL AND PRE-EMPTIVE RIGHTS

Movements in the share capital of the Company are set out in Note 23 to the financial statements.

There is no provision for pre-emptive rights under the Company's bye-laws and there is no restriction against such rights under Bermuda Law.

CONVERTIBLE BONDS

Movements in the convertible bonds are disclosed below as well as in the "Financial Review" section of this Annual Report and under Note 21 to the financial statements.

PURCHASE, SALE OR REDEMPTION

On 1 February 2011, an aggregate of 8,092 units of the Group's convertible bonds due 2013 at face value of US$10,000 each and with total principal value of US$80.92 million were redeemed and cancelled, following the relevant bondholders who had exercised put option for redemption of their convertible bonds on 31 December 2010. On the same day, the

Group exercised the option to redeem all the Group's remaining 2,428 units of convertible bonds due 2013 at face value of US$10,000 each, together with accrued but unpaid interest to 4 March 2011. Redemption and cancellation of these 2,428 units was completed on 4 March 2011.

Saved as disclosed above and other than for satisfying restricted share awards granted under the LTIS as disclosed below, neither the Company nor any of its subsidiaries has, during the year, purchased, sold or redeemed any of the share capital or convertible bonds of the Company.

LONG TERM INCENTIVE SCHEME

Share awards and share options are granted to Executive Directors, senior management and other employees under the Company's Long Term Incentive Scheme ("LTIS").

(A) PURPOSE AND ELIGIBLE PARTICIPANTS OF THE LTIS

The LTIS enables the Company to grant share options and share awards to eligible participants (and their related trusts and companies), being principally directors and employees, as an incentive and recognition for their contribution to the Group. The LTIS incentivises performance of participants by linking part of their remuneration to the achievement of the Group. The value offered is related to job grade and contribution to the management of the business.

(B) MAXIMUM NUMBER OF SHARES

The total number of shares which may be or have been issued by the Company or transferred to (i) the trustee of the LTIS in satisfaction of share awards and (ii) in respect of options that have been granted or to be granted, under the LTIS or any other schemes must not, in aggregate, exceed 126,701,060 shares (representing 6.54% of the Shares in issue at 1 March 2012). There were 400,000 outstanding share options and 18,607,000 restricted shares not vested under the LTIS which represents 0.98% of the issued share capital of the Company as at 1 March 2012.

(C) LIMIT FOR EACH ELIGIBLE PARTICIPANT

The aggregate number of shares issued and to be issued upon exercise of share options or vesting of share awards granted in any 12 month period to an eligible participant (including vesting of outstanding share awards and both exercised and outstanding options) shall not exceed 1% of the shares in issue as at the date of grant.

(D) PROCEDURE OF GRANTING RESTRICTED SHARE AWARDS

The Board entered into a trust deed to appoint a trustee to administer share awards under the LTIS and to constitute a trust to hold property transferred by the Company to the trustee (which shall include cash or Shares) in order to satisfy grants of share awards. At the direction of the Board, the trustee shall either subscribe for new shares at par from the Company or acquire existing shares in the market in accordance with the LTIS.

(E) BASIS OF DETERMINING THE EXERCISE PRICE OF OPTIONS

The exercise price payable on exercise of the share options under the LTIS shall be determined by the Board and notified to each grantee. The exercise price shall not be less than the higher of: (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of that share option, which must be a business day; (ii) the average of the closing prices per share as stated in the Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of that share option; and (iii) the nominal value of the shares.

All notices to exercise share options shall be accompanied by a remittance for the full amount of the subscription price for the shares in respect of which the notice is given.

(F) REMAINING LIFE OF THE SCHEME

The LTIS will remain in force unless terminated by resolution in a general meeting or by the Board. No further share awards or share options can be offered under the LTIS after 14 July 2014, being the 10th anniversary of the adoption of the LTIS.

(G) AWARDS GRANTED

Details of the grant of long term incentives and a summary of the movements of the outstanding incentives during the year ended 31 December 2011 under the LTIS are as follows:

(I) HISTORY AND MOVEMENT OF RESTRICTED SHARE AWARDS GRANTED

	Date of first award	Total awarded	Vested to date	At 31 December 2011	At 1 January 2011	Granted during the year	Vested or lapsed[1]	Vesting in 2012	2013	2014
		'000	'000	'000	'000	'000	'000	'000	'000	'000
Directors										
David M. Turnbull	5 Aug 2008	1,315	(351)	964	729	352	(117)	299	313	352
Klaus Nyborg	19 Sept 2006	4,624	(2,500)	2,124[2]	1,924	700	(500)	802	622	700
Jan Rindbo	11 May 2007	2,615	(1,179)	1,436	1,082	503	(149)	485	448	503
Andrew T. Broomhead	11 May 2007	1,540	(630)	910	603	377	(70)	229	304	377
Wang Chunlin	9 Mar 2006	2,561	(1,425)	1,136	1,037	354	(255)	467	315	354
		12,655	(6,085)	6,570	5,375	2,286	(1,091)	2,282	2,002	2,286
Senior Management		3,155	1,541	1,614	1,456	449	(291)	638	527	449
Other Employees				12,334	9,999	5,131	(2,796)	4,821	3,552	3,961
				20,518	16,830	7,866	(4,178)	7,741	6,081	6,696
Movement in 2010				16,831	17,286	6,446	(6,901)			

Note : (1) 370,000 (2010: 963,000) Shares lapsed due to resignation of four Employees during 2011.
(2) 2,124,000 Shares shall lapse following Mr. Nyborg's resignation which will take effect from 15 March 2012.

The closing price of the shares of the Company immediately before the grant of:
- 7,456,000 restricted share awards on 20 May 2011 was HK$4.77;
- 206,000 restricted share awards on 4 November 2011 was HK$3.50; and
- 204,000 restricted share awards on 30 December 2011 was HK$3.04.

(II) SHARE OPTIONS AND SHARE VALUATION

Share options were granted on 14 July 2004 under the LTIS at an exercise price of HK$2.5 per share. There were 400,000 share options of Other Employees not exercised during the year ended 31 December 2011. They were fully vested and will expire on 14 July 2014.

Based on a report prepared by Watson Wyatt Hong Kong Limited, the fair market values of the share options granted on 14 July 2004 based on the binomial option pricing model for the exercise period from 14 July 2005 to 13 July 2014 is HK$0.834 per share option.

Note: Key assumptions included an expected dividend yield of 8% per annum, volatility of the Company's share price of 50% per annum, a risk-free rate of interest of 4% and 4.1% per annum on the respective grant dates, that the employees will exercise their share options if the share price is 100% above the exercise price, and an expected rate of leaving service of eligible employees after the vesting date of 0.4% per annum.

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

DIRECTORS

The Directors[1] who held office up to the date of this Annual Report are set out below:

	Date of appointment to:					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Term of appointment
Executive Directors						
David M. Turnbull	17 May 2006	–	–	–	1 July 2008	3 years until 17 May 2014 or 2014 AGM
Klaus Nyborg[2]	4 September 2006	–	–	–	4 September 2006	3 years until 4 September 2012 or 2012 AGM
Jan Rindbo	1 April 2007	–	–	–	23 January 2008	3 years until 2012 AGM
Andrew T. Broomhead	1 September 2010	–	–	–	1 January 2010	3 years until 1 September 2013 or 2013 AGM
Wang Chunlin	1 September 2006	–	–	–	1 September 2006	3 years until 1 September 2013 or 2013 AGM
Non-executive Director						
Richard M. Hext	5 April 2005	–	–	–	–	3 years until 2013 AGM
Independent Non-executive Directors						
Patrick B. Paul	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2013 AGM
Robert C. Nicholson	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years until 2014 AGM
Alasdair G. Morrison	1 January 2008	1 January 2008	1 January 2008	1 January 2008	–	3 years until 2013 AGM
Daniel R. Bradshaw	7 April 2006	7 April 2006	7 April 2006	7 April 2006	–	3 years until 2014 AGM

Notes:
(1) Pursuant to Bye-law 87(1), one-third of the Directors shall retire from office by rotation at each annual general meeting and retiring Directors shall be eligible for re-election at the annual general meeting.
(2) On 5 September 2011, Mr. Nyborg indicated his intention to resign as an Executive Director and the Chief Executive Officer. His resignation will come into effect on 15 March 2012.

Messrs. Jan Rindbo, Richard M. Hext and Patrick B. Paul will retire at the forthcoming 2012 Annual General Meeting by rotation pursuant to the Company's Bye-laws 87(1) & (2), and, being eligible, will offer themselves for re-election.

DIRECTORS' SERVICE CONTRACTS

None of the Directors who are proposed for re-election at the forthcoming 2012 Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS' INTERESTS IN CONTRACTS OF SIGNIFICANCE

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

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

Brief biographical details of Directors and senior management are set out in the "Directors and Senior Management" section of this Annual Report.

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

At 31 December 2011, the discloseable interests and short positions of each Director and the Chief Executive in Shares, underlying Shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO, or (b) were required to be entered in the register maintained by the Company under Section 352 of the SFO, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Corporate interests	Personal interests	Family interests	Trust & similar interests	Long/ Short Position	Number of underlying Shares under equity derivatives	Total Share interests	Approximate percentage of issued share capital of the Company
David M. Turnbull[1]	–	964,000	–	528,074[2]	Long Position	–	1,492,074	0.08%
Klaus Nyborg[1]	–	2,124,000	–	–	Long Position	–	2,124,000	0.11%
Jan Rindbo[1]	–	3,556,370	–	–	Long Position	–	3,556,370	0.18%
Andrew T. Broomhead[1]	–	1,376,704	1,056,148[3]	–	Long Position	–	2,432,852	0.13%
Wang Chunlin[1]	–	1,136,000	–	–	Long Position	–	1,136,000	0.06%
Richard M. Hext	105,614[4]	2,871,501	–	–	Long Position	–	2,977,115	0.15%
Patrick B. Paul	–	50,000	–	–	Long Position	–	50,000	less than 0.01%
Daniel R. Bradshaw	386,417[5]	–	–	–	Long Position	–	386,417	0.02%

Notes:

(1) Restricted share awards were granted under the LTIS and have been disclosed on page 79 under the Long Term Incentive Scheme of this Report of the Directors.
(2) 528,074 shares are in the form of 50 units of convertible bonds due 2016 at face value of US$10,000 each, held by a Trust namely Bentley Trust (Malta) Limited, of which Mr. Turnbull is the founder.
(3) 1,056,148 shares are in the form of 100 units of convertible bonds due 2016 at face value of US$10,000 each, held jointly by Mr. Broomhead and his wife.
(4) 105,614 shares are in the form of 10 units of convertible bonds due 2016 at a face value of US$10,000 each, held by Lady Margaret Hall Limited, a company wholly owned by Mr. Hext.
(5) Mr. Bradshaw is a shareholder holding 100% and 50% of the issued share capital, respectively, in Cormorant Shipping Limited and Goldeneye Shipping Limited. He beneficially owns 353,241 Shares via Cormorant Shipping Limited and is taken to be interested in the 33,176 Shares held by Goldeneye Shipping Limited.

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2011.

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

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

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2011, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name	Capacity/ Nature of interest	Long/Short position	Number of shares	Approximate percentage of the issued share capital of the Company
Canadian Forest Navigation Co. Ltd./ Compagnie De Navigation Canadian Forest Ltee.[1]	Beneficial owner and Interest in corporation controlled	Long	252,703,500	13.05%
Michael HAGN	Interest in corporation controlled	Long	252,703,500	13.05%
MIHAG Holding Ltd.	Interest in corporation controlled	Long	252,703,500	13.05%
Total Investments Inc.	Interest in corporation controlled	Long	103,256,654	5.33%
Total Banking Corporation	Beneficial owner	Long	103,256,654	5.33%
Aberdeen Asset Management Plc and its Associates (together the "Group") on behalf of accounts managed by the Group	Investment manager	Long	176,735,536	9.13%
Mondrian Investment Partners Limited	Investment manager	Long	162,045,000	8.37%
Prudential Plc	Interest in corporation controlled	Long	97,894,000	5.06%
JP Morgan Chase & Co. [2]	Beneficial owner, Investment manager and Custodian corporation/approved lending agent	Long Short Lending Pool	97,726,177 5,989,167 79,649,120	5.05% 0.31% 4.11%

Notes:

(1) *The shares held by Canadian Forest Navigation Co. Ltd. / Compagnie De Navigation Canadian Forest Ltee are held in the capacities of Beneficial owner (relating to 149,446,846 shares) and Interest in corporation controlled (relating to 103,256,654 shares).*

(2) *The long position in shares held by JP Morgan Chase & Co. are held in the capacities of Beneficial owner (relating to 8,523,057 shares), Investment manager (relating to 9,554,000 shares) and Custodian corporation/approved lending agent (relating to 79,649,120 shares).*

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2011, no other person (other than a Director or Chief Executive of the Company) had an interest or short position in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company under section 336 of the SFO.

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

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

CONNECTED TRANSACTION

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

COMPLIANCE WITH THE CODE ON CORPORATE GOVERNANCE PRACTICES

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

AUDIT AND REMUNERATION COMMITTEES

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

AUDITORS

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

PUBLIC FLOAT

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

By Order of the Board

Andrew T. Broomhead
Executive Director and Company Secretary
Hong Kong, 1 March 2012

SHARE AND CONVERTIBLE BOND INFORMATION

As at 31 December 2011:

- the Company had 1,936,577,119 ordinary shares in issue, each with a par value of US$0.10; and
- the Group had 1.75% Convertible Bonds with an aggregate principal amount of US$230 million.

The Company's Shares are a constituent member of Hang Seng sub index series and MSCI Index series.

PUBLIC FLOAT

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

MARKET CAPITALISATION

Year	2004	2005	2006	2007	2008	2009	2010	**2011**
Closing price (HK$)	3.35	3.6	4.9	12.58	3.52	5.63	5.17	**3.11**
Market Capitalisation (US$ mil)	539	591	976	2,550	796	1,400	1,280	**772**

p.9 Total shareholders' return

DIVIDEND

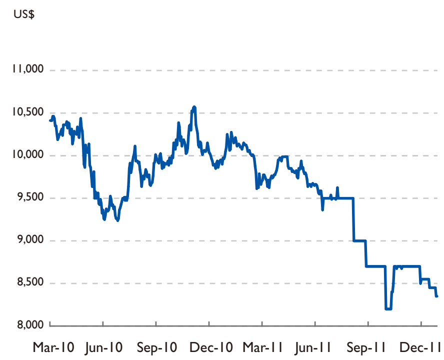
Our dividend policy is to pay out at least 50% of our annual attributable profit (excluding disposal gains).

Ordinary Shares Price Performance

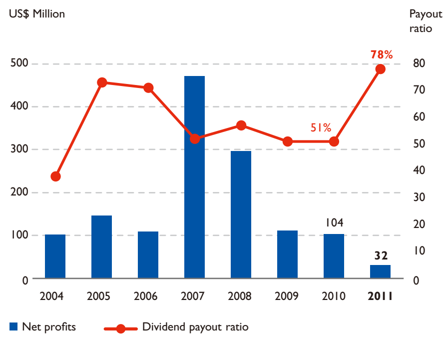
(14 July 2004 – 31 December 2011)

Convertible Bonds Price Performance

(10 March 2010 – 31 December 2011)



Net Profit versus Dividend Payout Ratio since Listing



website Dividend history

FINANCIAL CALENDAR FOR 2012

Planned Date	
1 March	2011 annual results announcement
16 March	2011 Annual Report
18 April	1Q trading activities update
19 April	Annual General Meeting
23 April	Last day of dealings in Shares with entitlement to 2011 final dividend
24 April	Ex-dividend date
25 April 4.30pm HK time	Deadline for lodging transfers for entitlement to 2011 final dividend
26-30 April	Book closure period (both days inclusive)
30 April	Record date for 2011 final dividend
10 May	2011 final dividend payment date
1 August	2012 interim results announcement
14 August	Last day of dealings in Shares with entitlement to 2012 interim dividend
15 August	Ex-dividend date
16 August 4.30pm HK time	Deadline for lodging transfers for entitlement to 2012 interim dividend
17-20 August	Book closure period (both days inclusive)
20 August	Record date for 2012 interim dividend
20 August	2012 interim Report
28 August	2012 interim dividend payment date
18 October	3Q trading activities update

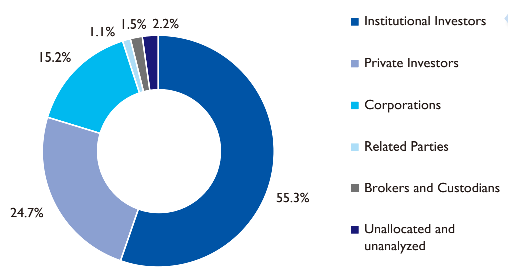
2012 ANNUAL GENERAL MEETING

To be held at 10:30 am on Thursday 19 April 2012. The Notice of Annual General Meeting explains shareholders' rights and will be available on our website on or around 16 March 2012. A printed copy will be sent to those shareholders who requested one in hard-copy form.

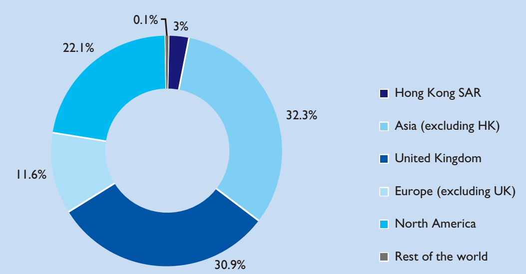
OUR SHAREHOLDERS

As at 31 December 2011, Pacific Basin had 449 registered shareholders of whom 389 or 86.64% have their registered addresses in Hong Kong. Thomson Reuters was able to analyse the ownership of about 99% of the Company's share capital. Institutional Investors still accounted for the largest portion of the Company's shareholder base, owning nearly 1.1 billion shares or 55.3% of our share capital.

Type of Shareholders



Geographical Distribution of our Institutional Investors



OUR BONDHOLDERS

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

p.130 Convertible bonds – Note 21(c)

INVESTOR RELATIONS AND CORPORATE COMMUNICATIONS

We seek to be transparent about our operations and performance through our reporting and investor relations activities. We are committed to ensuring the market is informed of relevant information about the Company on a regular basis, allowing both existing and potential shareholders to evaluate the Company, its performance and its prospects. We value the communication we have with existing and potential shareholders and believe that investor relations efforts can help to augment the public's understanding of the Company, increase recognition of our development and ultimately enhance shareholder value.

STAKEHOLDER ENGAGEMENT

- **Communication channels –** Active stakeholder engagement is important as a way to increase understanding of Pacific Basin and our activities and performance. We believe that the transparency encouraged by such engagement builds recognition of our brand and ultimately enhances shareholder value. We achieve engagement through the following channels:

Financial Reporting

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

Shareholder Meetings and Hotlines

Group and one-on-one meetings, a shareholder hotline and e-mail channels encourage feedback, comments and queries from the market

Investor Relations
E-mail: ir@pacificbasin.com
Tel: 852-2233 7000

Vessel Tours

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

Social Media Communications

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

Facebook
Twitter

Company Website
www.pacificbasin.com

website

Information available on the website:

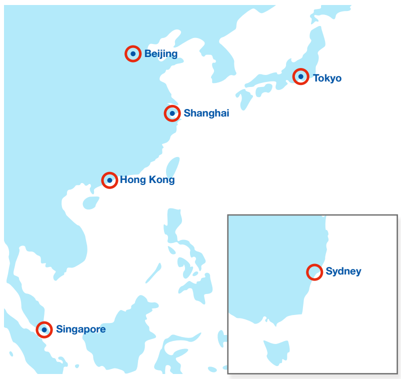
- Board and management team biographical data
- Board Committees' Terms of Reference
- Fleet profile
- Corporate Governance, Risk Management and CSR
- Financial information including Excel downloads, news and press kits
- Linked websites of the Group's main businesses

- **Roadshow –** We visited investors in these locations:

North America

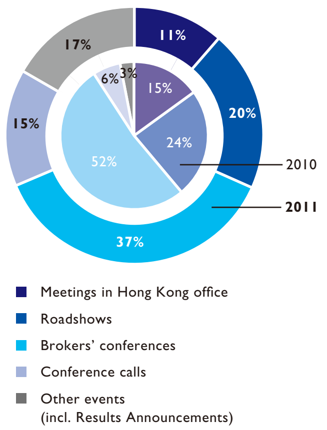
Europe

Asia – Pacific

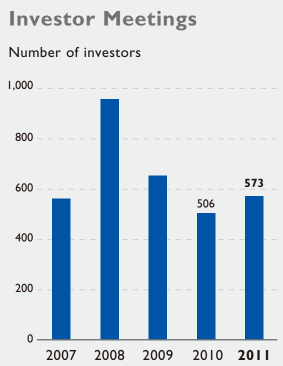


○ 2011 • 2010

- **Investor meetings –** In 2011, we met 573 (2010: 506) shareholders and investors through the following means:



INVESTOR RELATIONS KPI



Our share capital is held by a diverse range of institutional, private and corporate investors, so we consider it important to make ourselves accessible to our shareholders and the investment community to enhance their understanding of our business. We have therefore chosen the number of investors we meet annually as the key measure of our engagement with them.

- **Analysts coverage –** Pacific Basin encourages active sell-side analyst coverage to help investors evaluate the Company and its opportunities and issues. Currently, 22 analysts actively follow our stock and have produced more than 40 reports covering Pacific Basin over past 6 months.

website Analyst coverage

SHAREHOLDERS MEETING

The Company held one general meeting during the year.

The Annual General Meeting was held on 19 April 2011. The following resolutions tabled at the Annual General Meeting were voted on by polls, passed and approved:

- receipt and adoption of the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2010;
- declaration of final dividend of 16.5 HK cents per share for the year ended 31 December 2010;
- re-election of Directors;
- fixing of the remuneration of the Directors by the Board;
- re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2011 and to authorise the Board to fix their remuneration;
- general mandate to repurchase Shares; and
- renewal of the 2% annual cap to issue shares under the Long Term Incentive Scheme.

p.69 Shareholders' Rights

News and Achievements

Our global chartering presence expands with a new office in Stamford, USA

PB Towage assists with removal navigational hazards in Brisbane during the Queensland flooding

"Nobody is perfect, but a Team can be" – Our Technical department publishes inspirational safety & teamwork article in International Human Element Bulletin "Alert"

Gold Award received for Environmental Responsibility & Investor Relations at The Asset Corporate Awards

Our "Port Pegasus" weathers the Japanese Tsunami unscathed after 18-hour battle with extraordinary currents in port of Onahama

US Navy thwarts pirate attack on board "Falcon Trader II" under Pacific Basin charter

2011

JANUARY | FEBRUARY | MARCH | APRIL | MAY | JUNE | JULY

Port of Long Beach awards Pacific Basin the Green Flag Environmental Achievement Award

Our new dry bulk voyage management system is rolled out following a major systems and process review

HK Marine Department honours received for:

- Best performing ship management company in Port State Control inspection (Unicon Award)
- Exemplary actions of Master and crew of our "Port Pegasus" in the Japanese Tsunami

"The Best of Asia – HK" award received at The Corporate Governance Asia Recognition Awards

Institutional Investor Awards:

- The 2011 All-Asia Executive Team: Best CFOs – Transportation (Buy side)
- The 2011 All-Asia Executive Team: Best IR Companies – Transportation (Buy side)

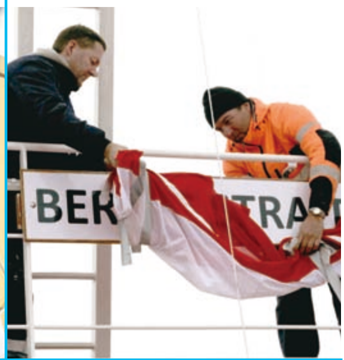
Pacific Basin's Handysize fleet expands beyond 100 ships in operation

Lloyd's List Awards Global 2011:
- Captain Zhu Qianchun is named "Seafarer of the Year" for his actions on board "Port Pegasus" during the Japanese Tsunami
- Pacific Basin wins Environment Award for gold standard environmental policy and initiatives promising real results

Lloyd's List Awards Asia 2011:
- Seafarer of the Year
- Environment Award
- Shipmanager of the Year
- High commendation for performance in Safety

Captain Zhu Qianchun is nominated among Lloyd's List 100 most influential people in shipping in 2011

Certificate of Excellence received for Investor Relations at the IR Awards 2011 – Greater China



2012

AUGUST | **SEPTEMBER** | **OCTOBER** | **NOVEMBER** | **DECEMBER** | **JANUARY**

Our global network of chartering offices is further expanded across six continents with opening of our Durban office

"Bering Strait" delivers in January 2012 marking the completion of our RoRo newbuilding programme

PB Towage's involvement in Chevron's US$37 billion Gorgon project is extended for further 2 years to April 2014

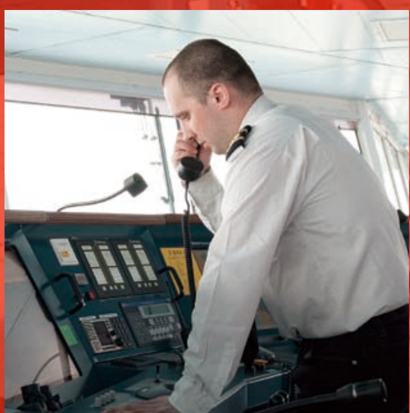
Pacific Basin wins Seatrade Asia Bulk Operator Award – and shortlisted in environmental protection, safety and ship management categories

"2010 Global Deal of the Year Award – Equity Linked" at the Marine Money Awards

"Awanuia" and other PB Towage vessels assist salvors in significantly limiting oil pollution caused by grounded containership "Rena" in New Zealand

Honours received at IR Global Rankings:
- Bronze Award for Investor Relations Website in China
- Outstanding Corporate Governance in Asia-Pacific and Greater China
- Outstanding Financial Disclosure in Asia-Pacific and Greater China

Financial Statements



Consolidated Balance Sheet

As at 31 December 2011

	Note	2011 US$'000	2010 US$'000
Non-current assets			
Property, plant and equipment	6	**1,525,185**	1,518,632
Investment properties	7	**2,734**	2,664
Land use rights	8	**3,874**	3,815
Goodwill	9	**25,256**	25,256
Interests in jointly controlled entities	11(a)	**44,403**	56,125
Investments in associates	12	**4,411**	4,098
Available-for-sale financial assets	13	**11,533**	74,476
Derivative assets	14	**361**	1,672
Trade and other receivables	15	**5,175**	6,792
Restricted bank deposits	16	**8,566**	10,280
Other non-current assets	17	**4,400**	–
		1,635,898	1,703,810
Current assets			
Inventories	18	**66,873**	39,911
Derivative assets	14	**5,303**	7,066
Structured notes	19	**12,913**	–
Trade and other receivables	15	**101,110**	111,444
Restricted bank deposits	16	**11,154**	3,421
Cash and deposits	16	**598,501**	689,736
		795,854	851,578
Current liabilities			
Derivative liabilities	14	**1,298**	3,972
Trade and other payables	20	**144,798**	127,248
Current portion of long term borrowings	21	**65,323**	165,696
Taxation payable		**2,139**	3,059
Provision for onerous contracts	22	**–**	2,031
		213,558	302,006
Net current assets		**582,296**	549,572
Total assets less current liabilities		**2,218,194**	2,253,382
Non-current liabilities			
Derivative liabilities	14	**19,563**	14,721
Long term borrowings	21	**713,716**	693,770
		733,279	708,491
Net assets		**1,484,915**	1,544,891
Equity			
Capital and reserves attributable to shareholders			
Share capital	23	**193,658**	193,164
Retained profits	24	**708,463**	720,809
Other reserves	24	**582,794**	630,918
Total equity		**1,484,915**	1,544,891

Approved by the Board of Directors on 1 March 2012

Klaus Nyborg
Director

Andrew T. Broomhead
Director

	Note	2011 US$'000	2010 US$'000
		As at 31 December 2011	
Non-current assets			
Investments in subsidiaries	10	**631,836**	227,736
Current assets			
Prepayments and other receivables		**76**	36
Amounts due from subsidiaries	10	**1,078,579**	1,584,210
Cash and cash equivalents	16	**13**	13
		1,078,668	1,584,259
Current liabilities			
Accruals and other payables		**206**	512
Amount due to subsidiaries	10	**221,332**	320,198
		221,538	320,710
Net current assets		**857,130**	1,263,549
Total assets less current liabilities		**1,488,966**	1,491,285
Equity			
Share capital	23	**193,658**	193,164
Retained profits	24	**695,977**	701,032
Other reserves	24	**599,331**	597,089
Total equity		**1,488,966**	1,491,285

Approved by the Board of Directors on 1 March 2012

Klaus Nyborg
Director

Andrew T. Broomhead
Director

Consolidated Income Statement

For the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
Revenue	4(a)	**1,342,535**	1,268,542
Direct costs	4(a), 5	**(1,234,889)**	(1,109,213)
Gross profit		**107,646**	159,329
General and administrative expenses	4(a), 5	**(10,754)**	(12,945)
Other income and gains	25	**67,173**	47,176
Other expenses	5	**(91,070)**	(59,189)
Finance costs, net	26	**(31,332)**	(31,193)
Share of profits less losses of jointly controlled entities	11	**508**	1,805
Share of profits less losses of associates	12	**(9,992)**	(192)
Profit before taxation		**32,179**	104,791
Taxation	27	**(197)**	(453)
Profit attributable to shareholders		**31,982**	104,338
Dividends	29	**24,896**	53,441
Earnings per share for profit attributable to shareholders			
Basic	30(a)	**US 1.65 cents**	US 5.41 cents
Diluted	30(b)	**US 1.65 cents**	US 5.41 cents

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2011

	2011 US$'000	2010 US$'000
Profit attributable to shareholders	**31,982**	104,338
Other comprehensive income		
Release of investment valuation reserve upon disposal of available-for-sale financial assets	**(60,502)**	(5,441)
Fair value gains on available-for-sale financial assets	**22,884**	29,320
Impairment of available-for-sale financial assets charged to income statement	**910**	–
Cash flow hedges:		
– fair value losses	**(7,196)**	(2,543)
– transferred to finance costs in consolidated income statement	**3,598**	(3,698)
– transferred to property, plant and equipment	**–**	(15,431)
Currency translation differences	**(953)**	8,871
Total comprehensive income attributable to shareholders	**(9,277)**	115,416

Consolidated Statement of Changes in Equity

For the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
Balance at 1 January		**1,544,891**	1,455,567
Share-based compensation		**4,213**	3,911
Shares purchased by trustee of the LTIS	23	**(1,477)**	(1,294)
Shares issued upon exercise of share options	23(a)	**–**	251
Equity component of convertible bonds issued		**–**	32,302
Derecognition of the equity component upon repurchase and cancellation of convertible bonds		**–**	(11,568)
Dividends paid	29	**(53,435)**	(49,694)
Total comprehensive income attributable to shareholders		**(9,277)**	115,416
Balance at 31 December		**1,484,915**	1,544,891

Consolidated Cash Flow Statement

For the year ended 31 December 2011

	Note	2011 US$'000	2010 US$'000
Operating activities			
Cash generated from operations	31	160,455	200,183
Hong Kong profits tax paid		(949)	(540)
Overseas taxation paid		(145)	(1,066)
Net cash from operating activities		159,361	198,577
Investing activities			
Purchase of property, plant and equipment		(170,120)	(541,254)
Disposal of property, plant and equipment		3,261	119
Disposal of available-for-sale financial assets		80,573	25,498
Purchase of available-for-sale financial assets		(2,378)	(168)
Refund of available-for-sale financial assets		1,954	2,071
Disposal of notes receivable		94,417	50,000
Purchase of notes receivable		(44,417)	(50,000)
Purchase of structured notes		(43,301)	–
Disposal of structured notes		30,356	–
Interest received		12,867	19,093
Dividends received from a jointly controlled entity		10,080	–
Loan repayment received from jointly controlled entities		7,090	5,565
Investments in jointly controlled entities		–	(14,189)
Increase in loan to a jointly controlled entity		–	(1,669)
Investment in an associate		(6,968)	(848)
Repayment received from/(increase in) loan to an associate		67	(100)
(Increase)/decrease in restricted bank deposits		(5,549)	42,444
Payment for other non-current assets		(4,400)	–
Receipt of finance lease receivables – capital element		1,440	1,284
Net cash used in investing activities		(35,028)	(462,154)
Financing activities			
Drawdown of bank loans		184,400	79,822
Repayment of bank loans		(138,685)	(90,145)
Payment for repurchase and cancellation of convertible bonds		(105,200)	(210,829)
Dividends paid to shareholders of the Company		(53,435)	(49,694)
Interest and other finance charges paid		(35,949)	(37,087)
Repayment of finance lease payables – capital element		(15,976)	(14,928)
Payment for shares purchased by trustee of the LTIS	23	(1,477)	(1,294)
Proceeds from issuance of convertible bonds, net of issuing expenses		–	227,372
Proceeds from shares issued upon exercise of share options		–	251
Net cash used in financing activities		(166,322)	(96,532)
Net decrease in cash and cash equivalents		(41,989)	(360,109)
Cash and cash equivalents at 1 January		639,736	999,095
Exchange gains on cash and cash equivalents		754	750
Cash and cash equivalents at 31 December		598,501	639,736

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, services to the energy and infrastructure sectors, and RoRo shipping services, which are carried out 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 1 March 2012.

1.2 New presentation of the notes to the financial statements

The notes to the financial statements in this report have been changed to place them 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 blue background shading. A navigation table is presented in Note 2.2.

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 carnation red background shading. A navigation table is presented in Note 3.

Financial risk management has been integrated into the Risk section. The auditable parts have been clearly marked and are listed below:

- Market Risks (P.59)
- Credit & Counterparty Risks (P.60)
- Liquidity Risk (P.60)
- Capital Management Risk (P.61)

2 BASIS OF PREPARATION

2.1 Objective and accounting standards

The objective of these consolidated financial statements is to explain the results of the year ended 31 December 2011 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 BASIS OF PREPARATION (continued)

2.2 Accounting policies navigator

Accounting policies	Location
Available-for-sale financial assets	Note 13
Borrowing costs	Note 6
Borrowings (including convertible bonds)	Note 21
Cash and cash equivalents	Note 16
Consolidation	
Associates	Note 12
Jointly controlled entities	Note 11(a)
Jointly controlled operation	Note 11(b)
Subsidiaries	Note 10
Contingent liabilities and contingent assets	Note 36
Current and deferred income tax	Note 27
Derivative financial instruments and hedging activities	
Cash flow hedge	Note 14
Derivatives that do not qualify for hedge accounting	Note 14
Dividends	Note 29
Employee Benefits	Remuneration Report (P.76)
Finance leases	
Where the Group is the lessor	Note 15 (b)
Where the Group is the lessee	Note 21 (a)
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, jointly controlled entities 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
Operating leases	
Where the Group is the lessor	Note 32 (b)
Where the Group is the lessee	Note 32 (b)
Property, plant and equipment ("PP&E")	
Gains or losses on disposal	Note 6
Vessels and vessel component costs	Note 6
Vessels under construction	Note 6
Provisions	Note 2.5
Revenue recognition	
Freight and charter-hire	Note 4
Ship management	Note 4
Others	Note 4
Segment reporting	Note 4
Share capital	Note 23
Trade and other receivables	Note 15
Trade payables	Note 20

Except as described in Note 2.3, the Group's principal accounting policies have been consistently applied to each of the years presented in these financial statements. Certain comparative figures have been reclassified to conform to the current year's presentation.

2 BASIS OF PREPARATION (continued)

2.3 Impact of new accounting policies

The following revised standards, amendments and improvements to standard are mandatory for the accounting period beginning 1 January 2011 and are relevant to the Group's operation.

HKAS 1 (Amendment)	Presentation of financial statements
HKAS 24 (Revised)	Related party disclosures
HKAS 27 (Amendment)	Consolidated and separate financial statements
HKAS 34 (Amendment)	Interim financial reporting
HKFRS 3 (Amendment)	Business combinations
HKFRS 7 (Amendment)	Financial instruments: Disclosures

The adoption of the above do not have a significant effect on the financial statements or result in any significant changes to the Group's principal accounting policies.

Certain new and amended standards, interpretations to the published standards and improvements to HKFRS are mandatory for accounting period beginning on or after 1 January 2012 or later periods. The Group was not required to adopt these new and amended standards, interpretations and improvements in the financial statements for the year ended 31 December 2011. Such new and amended standards, interpretations and improvements that are relevant to the Group's operation are as follows:

HKAS 1 (Amendments)	Presentation of financial statements
HKAS 27 (Amendments)	Separate financial statements
HKAS 28 (Revised 2011)	Associates and joint ventures
HKFRS 9	Financial instruments
HKFRS 10	Consolidated financial statements
HKFRS 11	Joint arrangements
HKFRS 12	Disclosure of interests in other entities
HKFRS 13	Fair value measurements

The Group has already commenced an assessment of the impact of these new and amended standards, interpretations and improvements but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

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 segments with non-US Dollar functional currencies include:

(i) RoRo Segment: principally Euro

(ii) Energy and Infrastructure Services 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 "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.

2 BASIS OF PREPARATION (continued)

2.4 Foreign currency translation (continued)

(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:

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

b) 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

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

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to other comprehensive income. When a foreign operation is partially or totally disposed of, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on disposal.

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 on the balance sheet date.

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 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) Classification of leases	Note 15(b) & 32(b)
e) Provision for onerous contracts	Note 22
f) Income taxes	Note 27

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 is primarily derived from the provision of dry bulk shipping services, services to the energy and infrastructure sectors and RoRo shipping services.

The results of the port projects and maritime services activities are included in the "All Other Segments" column as they do not meet the quantitative thresholds suggested by HKFRS.

"Treasury" manages the Group's cash and borrowings. As such, related finance income and expenses are allocated under "Treasury".

Geographical segment information is not presented as the Directors consider that the nature of the provision of shipping services, which are carried out internationally, preclude 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 is 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) Ship management

Ship management income is recognised when the services are rendered.

(iii) Others

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.

4 SEGMENT INFORMATION (continued)

(a) Income statement segment information

For the year ended 31 December 2011 US$'000	Pacific Basin Dry Bulk	PB Energy & Infrastructure Services	PB RoRo	All Other Segments	Total Segments	Unallocated Treasury	Unallocated Others	Total	Reclass-ification	Per Financial Statements
Revenue	1,194,971	116,263	29,746	915	1,341,895	-	900	1,342,795	(260)	1,342,535
Freight and charter-hire	1,194,971 [1]	93,837	29,599	-	1,318,407	-	900 [1]	1,319,307	(260) [1]	1,319,047
Maritime management services	-	22,426	147	915	23,488	-	-	23,488	-	23,488
Bunkers & port disbursements	(536,180) [2]	(2,843)	(2,817)	-	(541,840)	-	(1,159) [2]	(542,999)	542,999 [2]	-
Time charter equivalent earnings	658,791									
Direct costs	(562,300)	(97,531)	(27,720)	(2,308)	(689,859)	-	-	(689,859)	(545,030)	(1,234,889)
Bunkers & port disbursements	-	-	-	-	-	-	-	-	(542,999) [2]	(542,999)
Charter-hire expenses for vessels	(420,951)	(3,508)	-	-	(424,459)	-	-	(424,459)	(2,031)	(426,490)
Vessel operating costs	(63,395)	(48,684)	(14,927)	-	(127,006)	-	-	(127,006)	-	(127,006)
Depreciation of vessels	(45,808)	(15,061)	(11,042)	-	(71,911)	-	-	(71,911)	-	(71,911)
Direct overheads	(32,146)	(30,278)	(1,751)	(2,308)	(66,483)	-	-	(66,483)	-	(66,483)
Gross profit	96,491	15,889	(791)	(1,393)	110,196	-	(259)	109,937	(2,291)	107,646
General and administrative expenses	-	-	-	-	-	(2,479)	(8,275)	(10,754)	-	(10,754)
Other income and expenses	-	(85)	-	(1,885)	(1,970)	(21)	(24,197) [3]	(26,188)	2,291 [1]	(23,897)
Finance costs, net	(15,071)	(2,882)	(2,547)	873	(19,627)	(10,320)	(1,385) [4]	(31,332)	-	(31,332)
Share of profits less losses of jointly controlled entities	-	758	283	(533)	508	-	-	508	-	508
Share of losses of associates	-	(2,468)	(7,524)	-	(9,992)	-	-	(9,992)	-	(9,992)
Profit before taxation	81,420	11,212	(10,579)	(2,938)	79,115	(12,820)	(34,116)	32,179	-	32,179
Taxation	-	(434)	(19)	256	(197)	-	-	(197)	-	(197)
Profit attributable to shareholders	81,420	10,778	(10,598)	(2,682)	78,918	(12,820)	(34,116)	31,982	-	31,982

Note 1. Net unrealised forward freight agreements 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, realised and unrealised forward freight agreement benefits and expenses are reclassified to other income and other expenses. The related derivative assets and liabilities are also under "Unallocated Others".

Note 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 direct costs. The related derivative assets and liabilities are also under "Unallocated Others".

Note 3. "Others" represents the impairment charge of US$80 million of the RoRo vessels, net of gains on disposal of investment of US$55.8 million in Green Dragon Gas Limited.

Note 4. "Others" represents net unrealised interest rate swap contract benefits and expenses.

4 SEGMENT INFORMATION (continued)

(a) Income statement segment information (continued)

For the year ended 31 December 2010 US$'000	Pacific Basin Dry Bulk	PB Energy & Infrastructure Services	PB RoRo	All Other Segments	Total Segments	Unallocated Treasury	Unallocated Others	Total	Reclass-ification	Per Financial Statements
Revenue	1,169,405	78,744	14,572	2,473	1,265,194	–	(3,380)	1,261,814	6,728	1,268,542
Freight and charter-hire	1,169,405 [1]	50,956	14,408	–	1,234,769	–	(3,380) [1]	1,231,389	6,728 [1]	1,238,117
Maritime management services	–	27,788	164	2,473	30,425	–	–	30,425	–	30,425
Bunkers & port disbursements	(418,308) [2]	(4,051)	(2,085)	–	(424,444)	–	(8,195) [2]	(432,639)	432,639 [2]	–
Time charter equivalent earnings	751,097									
Direct costs	(592,969)	(69,559)	(10,665)	(3,381)	(676,574)	–	–	(676,574)	(432,639)	(1,109,213)
Bunkers & port disbursements	–	–	–	–	–	–	–	–	(432,639) [2]	(432,639)
Charter-hire expenses for vessels	(471,711)	(1,170)	(320)	–	(473,201)	–	–	(473,201)	–	(473,201)
Vessel operating costs	(53,973)	(32,994)	(4,532)	–	(91,499)	–	–	(91,499)	–	(91,499)
Depreciation of vessels	(39,935)	(12,864)	(3,758)	–	(56,557)	–	–	(56,557)	–	(56,557)
Direct overheads	(27,350)	(22,531)	(2,055)	(3,381)	(55,317)	–	–	(55,317)	–	(55,317)
Gross profit	158,128	5,134	1,822	(908)	164,176	–	(11,575)	152,601	6,728	159,329
General and administrative expenses	–	–	–	–	–	(4,936)	(8,009)	(12,945)	–	(12,945)
Other income and expenses	–	(521)	(96)	(888)	(1,505)	(651)	(3,129)	(5,285)	(6,728) [1]	(12,013)
Finance costs, net	(13,186)	(2,727)	(2,628)	1,029	(17,512)	(12,880)	(801) [4]	(31,193)	–	(31,193)
Share of profits less losses of jointly controlled entities	–	2,181	79	(455)	1,805	–	–	1,805	–	1,805
Share of profits less losses of associates	–	100	(292)	–	(192)	–	–	(192)	–	(192)
Profit before taxation	144,942	4,167	(1,115)	(1,222)	146,772	(18,467)	(23,514)	104,791	–	104,791
Taxation	–	726	(6)	(1,173)	(453)	–	–	(453)	–	(453)
Profit attributable to shareholders	144,942	4,893	(1,121)	(2,395)	146,319	(18,467)	(23,514)	104,338	–	104,338

4 SEGMENT INFORMATION (continued)

(b) Balance sheet segment information

At 31 December 2011 US$'000	Pacific Basin Dry Bulk	PB Energy & Infrastructure Services	PB RoRo	All Other Segments	Total Segments	Unallocated Treasury	Unallocated Others	Per Financial Statements
Total assets	1,106,582	291,464	375,226	53,714	1,826,986	595,774	8,992 [1, 2]	2,431,752
Total assets include:								
Property, plant and equipment	936,136	213,678	369,989	5,382	1,525,185	-	-	1,525,185
- Include additions to property, plant and equipment	120,244	8,982	38,366	2,528	170,120	-	-	170,120
Interests in jointly controlled entities	-	13,974	594	26,507	41,075	-	3,328	44,403
Investments in associates	-	4,411	-	-	4,411	-	-	4,411
- Include additions to investment in an associate	-	-	6,968	-	6,968	-	-	6,968
Total liabilities	406,436	59,393	52,299	2,822	520,950	400,876	25,011 [1, 2]	946,837
Total liabilities include:								
Long term borrowings	297,682	34,362	48,392	-	380,436	398,603	-	779,039

Total assets:

- Pacific Basin Dry Bulk (1,106,582): • Vessels delivered & under construction • Goodwill
- PB RoRo (375,226): • Vessels delivered & under construction
- Unallocated Treasury (595,774): • Group unallocated cash
- Unallocated Others (8,992): • Derivative assets

Interests in jointly controlled entities / Investments in associates:

- PB Energy & Infrastructure Services (13,974): • OMSA • Bunker tanker, N.Z.
- PB Energy & Infrastructure Services (4,411): • Gold River Marine Terminal, Canada
- All Other Segments (26,507): • Longtan Tianyu Terminal

Long term borrowings / Total liabilities:

- Pacific Basin Dry Bulk (297,682): • Bank loans • Finance lease liabilities
- PB Energy & Infrastructure Services (34,362): • Bank loans
- PB RoRo (48,392): • Bank loans
- Unallocated Treasury (398,603): Group general facilities includes: • Convertible bonds • Loans secured on vessels for future expansion
- Unallocated Others (25,011): • Derivative liabilities

At 31 December 2010 US$'000	Pacific Basin Dry Bulk	PB Energy & Infrastructure Services	PB RoRo	All Other Segments	Total Segments	Unallocated Treasury	Unallocated Others	Per Financial Statements
Total assets	978,462	291,421	443,669	153,634	1,867,186	679,940	8,262 [1, 2]	2,555,388
Total assets include:								
Property, plant and equipment	828,667	223,633	429,148	37,184	1,518,632	–	–	1,518,632
– Include additions to property, plant and equipment	250,998	55,308	195,339	21,851	523,496	–	642	524,138
Interests in jointly controlled entities	–	26,360	641	29,600	56,601	–	(476)	56,125
– Include additions to interests in jointly controlled entities	–	–	1,000	13,189	14,189	–	–	14,189
Investments in associates	–	3,442	656	–	4,098	–	–	4,098
Total liabilities	288,372	62,009	59,237	6,360	415,978	575,826	18,693 [1, 2]	1,010,497
Total liabilities include:								
Long term borrowings	184,458	44,975	54,718	–	284,151	575,315	–	859,466

5 EXPENSES BY NATURE

US$'000	2011	2010
Operating lease expenses		
– vessels	426,490	473,201
– land and buildings	3,753	3,332
Bunkers consumed	368,123	263,380
Port disbursements and other voyage costs	191,972	166,437
Provision for/(write-back of) impairment losses		
– Property, plant and equipment	80,000	–
– Available-for-sale financial assets	1,887	–
– Trade receivables	(620)	1,659
– Other non-current assets	–	11,775
– Goodwill included as interest in jointly controlled entities	–	7,233
Depreciation		
– owned vessels	60,478	45,082
– leased vessels	11,433	11,475
– other owned property, plant and equipment	1,503	1,386
– investment properties	64	61
Amortisation of land use rights	113	108
Employee benefit expenses including Directors' emoluments (see Remuneration Report)	51,309	41,505
Losses on forward freight agreements	9,067	36,559
Net (gains)/losses on bunker swap contracts	(14,906)	2,200
Lubricating oil consumed	5,900	4,920
Net exchange losses	2,526	5,540
Auditors' remuneration		
– audit	1,439	1,491
– non-audit	247	718
Fair value losses on structured notes	32	–
Losses on repurchase and cancellation of convertible bonds	–	651
Vessel and other expenses	135,903	102,634
Total of (i) "direct costs", (ii) "general and administrative expenses" and (iii) "other expenses"	1,336,713	1,181,347

General and administrative expenses

The Group incurred total administrative expenses of US$77.2 million (2010: US$68.3 million). Total administrative expenses comprised direct overheads of US$66.5 million (2010: US$55.3 million) and general and administrative expenses of US$10.7 million (2010: US$13.0 million). The increase of US$11.2 million in direct overheads was primarily due to a profit share with management in a subsidiary and additional employees employed in our towage services. The decrease of US$2.3 million in general and administrative expenses was primarily due to an additional US$2.4 million expense arising from the revaluation of Euros held by Treasury last year.

Other expenses

An impairment of US$80.0 million for the Group's RoRo vessels has been provided for in other expenses. The much weaker outlook for the RoRo charter market has given us concern about the ability to deploy our RoRo vessels profitably. This has reduced the value-in-use of our RoRo vessels to below their carrying values. This impairment is not allocated to the PB RoRo segment results as this does not relate to the underlying operations of the segment. However, the impairment reduces the carrying value of the PB RoRo segment assets.

Movements in the fair value and payments for forward freight agreements amounted to US$9.0 million (2010: US$36.6 million). Taking into account the movements in fair value and receipts of US$9.3 million included in other income, the net movement in the fair value and payments for forward freight agreements resulted in an income of US$0.3 million (2010: expense of US$6.8 million).

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 and are tested annually for impairment. 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 entity estimates the recoverable amount of the asset. 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 value of vessels and vessels under construction is either determined by the market valuation or by independent valuers.

The value-in-use of the vessels represents estimated future cash flows from the continuous use of the vessels.

For the purposes of assessing impairment, assets are grouped in the lowest levels at which there are separately identifiable cash flows. This level is described as a cash-generating unit ("CGU"). The way in which assets are grouped to form a CGU and the related cash flows associated with the CGU may in certain circumstances affect whether an impairment loss is recorded. Generally, the larger the grouping of assets and the broader the grouping of independent cash flows, the less likely it is that an impairment loss will be recorded as reductions in one cash inflow are more likely to be compensated by increases in other cash inflows within the same CGU.

Assets other than goodwill that suffered 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 securities 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 2011	1,380,865	335,939	3,148	3,515	4,942	212	1,728,621
Additions	81,447	86,145	–	141	2,387	–	170,120
Write off	(8,844)	–	–	–	–	–	(8,844)
Disposals	(3,867)	–	–	–	(106)	–	(3,973)
Exchange differences	(22,992)	5,552	89	(6)	3	4	(17,350)
Reclassification	242,748	(242,748)	–	–	–	–	–
At 31 December 2011	1,669,357	184,888	3,237	3,650	7,226	216	1,868,574
Accumulated depreciation and impairment							
At 1 January 2011	180,691	22,500	205	2,683	3,789	121	209,989
Charge for the year	71,911	–	89	325	1,042	47	73,414
Write off	(8,844)	–	–	–	–	–	(8,844)
Disposals	(607)	–	–	–	(105)	–	(712)
Impairment charge	50,665	29,335	–	–	–	–	80,000
Exchange differences	(8,497)	(1,981)	20	(7)	5	2	(10,458)
Reclassification	29,893	(29,893)	–	–	–	–	–
At 31 December 2011	315,212	19,961	314	3,001	4,731	170	343,389
Net book value							
At 31 December 2011	1,354,145	164,927	2,923	649	2,495	46	1,525,185
Estimated useful lives	Dry bulk vessels: 25 years Towage vessels: 30 years RoRo vessels: 30 years Vessel components costs: estimated period to the next drydocking	N/A	50 years	4 to 5 years or the remaining period of the lease, whichever is shorter	3 to 5 years	4 to 5 years	

Estimated useful lives for towage vessels changed from 25 years to 30 years with effective from 1 July 2011. The change in useful lives decreased the depreciation charge for 2011 by US$1,336,000 and will decrease the charge for 2012 by US$2,478,000.

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 2010	930,888	213,654	3,134	2,942	4,358	278	1,155,254
Additions	170,022	353,473	–	191	452	–	524,138
Write off	(7,249)	–	–	–	–	–	(7,249)
Disposals	–	–	–	(19)	(332)	(70)	(421)
Exchange differences	14,074	(5,203)	14	401	464	4	9,754
Reclassification	266,020	(266,020)	–	–	–	–	–
Transfer from other non-current asset	7,110	40,035	–	–	–	–	47,145
At 31 December 2010	1,380,865	335,939	3,148	3,515	4,942	212	1,728,621
Accumulated depreciation and impairment							
At 1 January 2010	129,694	22,500	115	2,115	2,732	137	157,293
Charge for the year	56,557	–	88	403	852	43	57,943
Write off	(7,249)	–	–	–	–	–	(7,249)
Disposals	–	–	–	(16)	(223)	(63)	(302)
Exchange differences	1,689	–	2	181	428	4	2,304
At 31 December 2010	180,691	22,500	205	2,683	3,789	121	209,989
Net book value							
At 31 December 2010	1,200,174	313,439	2,943	832	1,153	91	1,518,632
Estimated useful lives	Dry bulk vessels: 25 years Towage vessels: 25 years RoRo vessels: 30 years Vessel components costs: estimated period to the next drydocking	N/A	50 years	5 to 6 years or the remaining period of the lease, whichever is shorter	3 to 10 years	4 to 5 years	

As at 31 December 2011,

(a)

US$'000	2011 Aggregate cost	2011 Accumulated depreciation	2010 Aggregate cost	2010 Accumulated depreciation
Vessel component costs	**41,844**	**(21,734)**	39,721	(16,637)
Vessels and vessel component costs under finance leases	**240,870**	**(78,105)**	240,847	(68,218)

(b) Certain owned vessels of net book value of US$548,532,000 (2010: US$493,624,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 21(b)(i)).

(c) Vessels under construction includes an amount of US$73,778,000 (2010: US$88,701,000) paid by the Group in relation to vessels whose construction work had not yet commenced.

(d) During the year, the Group has capitalised borrowing costs amounting to US$1,280,000 (2010: nil) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of the Group's general borrowings of 3.2%.

6 PROPERTY, PLANT AND EQUIPMENT (continued)

Accounting policies – Property plant and equipment

Please refer to Note 5 for the accounting policy on impairment and Note 21(a) for that on fixed assets held under finance leases.

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.

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.

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.

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.

Residual values and useful lives

The residual values of the Group's assets are defined as the estimated amounts that the Group would currently 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.

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 provided by the shipyards and the average demolition steel price of similar vessels, in the Far East market and Indian Sub-Continent market, over the preceding year.

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$0.8 million in the next year.

Useful lives of vessels and vessel component costs

The Group estimates useful life of its vessels by reference to the average historical useful life of similar class of vessels, their expected usage, expected repair and maintenance programme, and technical or commercial obsolescence arising from changes or improvements in the vessel 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$8.7 million or increase by US$11.5 million in the next year.

Impairment of vessels and vessels under construction

The Group tests whether the carrying value 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 fair market value and value-in-use, the Group reviews indicators of potential impairment such as reported sale and purchase prices, market demand and general market conditions as well as market valuations from leading, independent and internationally recognised shipbroking companies.

The value-in-use of the vessels is an assessment of assumptions and estimates of vessel future earnings and appropriate discount rates to derive the present value of those earnings. The discount rates used are based on the industry sector risk premium relevant to the CGU and the applicable gearing ratio of the CGU. The applicable discount rates applied for future cash flows in each segment for 2011 are as follow:

- Pacific Basin Dry Bulk 8.7% (2010: 10.6%)
- PB Towage 8.7% (2010: 10.6%)
- PB RoRo 6.6% (2010: 7.1%)

Sensitivity analysis:

With all other variables held constant, increasing the discount rates of Pacific Basin Dry Bulk or PB Towage by 1% from the original estimate will not give rise to any impairment. For PB RoRo if the discount rate changes by 1% from the original estimate or if the estimation of future earnings for the uncovered periods in 2012 & 2013 changes by 10% from the management estimates, the estimated value-in-use of the fleet would change by approximately US$3.3 million and US$4.1 million respectively. The result would still be higher than net book value and would not result in an additional impairment of our vessels.

7 INVESTMENT PROPERTIES

	Group	
US$'000	**2011**	2010
At 1 January	**2,664**	2,600
Depreciation	**(64)**	(61)
Exchange difference	**134**	125
At 31 December	**2,734**	2,664
Estimated useful lives	45 years	45 years

The investment properties were valued at 31 December 2011 by an independent qualified valuer on the basis of market value. The fair value of the investment properties was approximately US$4,092,000 (2010: US$3,772,000).

7 INVESTMENT PROPERTIES (continued)

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 related to "Building" in Note 6 & "Investment Properties" in Note 7.

	Group	
US$'000	**2011**	2010
At 1 January	**3,815**	3,864
Amortisation	**(113)**	(108)
Exchange difference	**172**	59
At 31 December	**3,874**	3,815

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	**2011**	2010
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.

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 two-year outlook. Key assumptions were based on past performance, management's expectations on market development and general inflation. Cash flows beyond the three year period 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 8.7% (2010: 10.6%) reflecting the Group's cost of capital.

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

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 according to the accounting policy on impairment in Note 5. Impairment losses on goodwill are not reversed.

10 SUBSIDIARIES

US$'000	Company 2011	2010
Non-current assets		
Unlisted investments, at cost	**631,836**	227,736
Current assets		
Amounts due from subsidiaries	**1,078,579**	1,584,210
Current liabilities		
Amount due to subsidiaries	**(221,332)**	(320,198)

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 2011 are set out in Note 38.

Accounting policy – Consolidation

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. 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 of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values 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 acquired 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 in the case of a bargain purchase, the difference is recognised directly in the income statement. On an acquisition-by-acquisition basis, 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 VENTURES

(a) Jointly controlled entities

US$'000	Group 2011	2010
Share of net assets	**40,220**	50,987
Equity loan to a jointly controlled entity (Note)	**4,183**	5,138
	44,403	56,125

Note: The equity loan to Seafuels Limited is unsecured, non-interest bearing, and has no fixed repayment terms and the Group does not intend to request for repayment within twelve months.

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

US$'000	Group 2011	2010
Assets		
Non-current assets	**57,151**	66,569
Current assets	**32,406**	51,629
	89,557	118,198
Liabilities		
Long term liabilities	**(23,400)**	(18,798)
Current liabilities	**(25,937)**	(48,413)
	(49,337)	(67,211)
Net assets	**40,220**	50,987
Revenue	**89,003**	124,102
Expenses	**(88,495)**	(122,297)
Share of results	**508**	1,805

There are no contingent liabilities relating to the Group's interests in jointly controlled entities, and there are no contingent liabilities or commitments of the jointly controlled entities themselves.

Accounting policy – Jointly controlled entities

A jointly controlled entity 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 jointly controlled entities 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 jointly controlled entities include goodwill (net of any accumulated impairment losses) identified on acquisition.

The Group's share of its jointly controlled entities' 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 jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that results from the purchase of assets by the Group from the jointly controlled entity 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 jointly controlled entities has been changed where necessary to ensure consistency with the policies adopted by the Group.

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

11 INTERESTS IN JOINT VENTURES (continued)

(a) Jointly controlled entities (continued)

Details of the principal jointly controlled entities of the Group held indirectly by the Company at 31 December 2011 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
PB Energy & Infrastructure Services:				
Offshore Marine Services Alliance Pty Ltd ("OMSA")	Australia	300 shares of AUD1 each	$33\frac{1}{3}\%/33\frac{1}{3}\%/33\frac{1}{3}\%$	Towage logistic services
Seafuels Limited	New Zealand	100 shares of NZD1 each	50%/50%/50%	Bunker tanker owning and chartering
Fujairah Bulk Shipping L.L.C. ("FBSL")	United Arab Emirates	5,500 shares of AED1,000 each	50%/50%/50%	Aggregate trading and provision of material supply and marine transportation activities
PB RoRo:				
Meridian Shipping Holdings Limited (formerly "Isis Shipping Limited")	England and Wales	150 shares of GBP1 each	50%/50%/50%	Provision of ship management services
Meridian Shipping Limited (formerly "Isis RoRo Management Limited") ("Meridian Shipping")	England and Wales	1 share of GBP1 each	50%/50%/50%	Provision of ship management services
Meridian Marine Management Limited ("Meridian Marine")	England and Wales	1,002 shares of GBP1 each	50%/50%/50%	Provision of ship management services
Others:				
Longtan Tianyu Terminal Co., Ltd. [1] 南京港龍潭天宇碼頭有限公司	PRC	RMB472,727,273 (registered capital)	45%/50%/45%	Terminal operation

[1] This jointly controlled entity is a sino-foreign cooperative joint venture established in the PRC.

11 INTERESTS IN JOINT VENTURES (continued)

(b) Jointly controlled operation

In 2011, the Group had a contractual arrangement with a third party to share equally the operating result associated with the ship chartering of a vessel (jointly controlled operation). The amounts of income and expenses recognised in respect of the Group's interest in the jointly controlled operation is as follow:

	Group	
US$'000	**2011**	2010
Charter-hire income included in revenue	**2,933**	–
Charter-hire expenses included in direct costs	**(2,155)**	–
	778	–

Accounting policy – Jointly controlled operation

A jointly controlled 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 jointly controlled 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 jointly controlled operations are included in the consolidated income statement

12 INVESTMENTS IN ASSOCIATES

	Group	
US$'000	**2011**	2010
Share of net assets	**2,955**	2,575
Equity loan to an associate (Note)	**1,456**	1,523
	4,411	4,098

Note: The equity loan to an associate, Muchalat Industries Limited, is unsecured, non-interest bearing, and has no fixed repayment terms, and the Group does not intend to request for repayment within twelve months.

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12 INVESTMENTS IN ASSOCIATES (continued)

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

US$'000	Group 2011	2010
Assets		
Non-current assets	4,455	3,447
Current assets	3,170	886
	7,625	4,333
Liabilities		
Long term liabilities	(1,975)	(76)
Current liabilities	(2,695)	(1,682)
	(4,670)	(1,758)
Net assets	2,955	2,575
Revenue	728	770
Expenses	(10,720)	(962)
Share of results	(9,992)	(192)

Accounting policy – Associates

Associates are all entities 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 changed 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 principal associates of the Group held indirectly by the Company at 31 December 2011 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
PB Energy & Infrastructure Services:				
Muchalat Industries Limited	BC, Canada	120 Class A common shares of CAD1 each	44.2%/44.2%/44.2%	Gold River Marine Terminal operation
PB RoRo:				
NGB Express Lines S.A.P.I. de C.V.	Mexico	9,959,889 Series II, Class B shares of MXN1 each	37.1%/39%/37.1%	Provision of trailer freight services

13 AVAILABLE-FOR-SALE FINANCIAL ASSETS

	Group					
	2011			2010		
US$'000	Level 1	Level 3	Total	Level 1	Level 3	Total
Listed equity securities (Note a)	9,786	–	9,786	72,176	–	72,176
Unlisted equity securities (Note b)	–	1,747	1,747	–	2,300	2,300
	9,786	1,747	11,533	72,176	2,300	74,476

Available-for-sale financial assets are denominated in United States Dollars.

(a) This represents the Group's investment in Greka Drilling Limited (2010: Green Dragon Gas Limited), company listed on the London AIM market.

(b) This represents the Group's investment in an unlisted renewable energy equity fund.

Available-for-sale financial assets have been analysed by valuation method as above. 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).

Changes in Level 3 financial instruments, unlisted equity securities, for the year ended 31 December 2011 are as follows:

US$'000	2011	2010
At 1 January	2,300	4,203
Additions	2,378	168
Return of capital	(1,954)	(2,071)
Impairment charge	(977)	–
At 31 December	1,747	2,300

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.

14 DERIVATIVE ASSETS AND LIABILITIES

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					
	2011			2010		
US$'000	Level 1	Level 2	Total	Level 1	Level 2	Total
Derivative assets						
Cash flow hedges						
Interest rate swap contracts (Note a(i))	–	–	–	–	184	184
Derivative assets that do not qualify for hedge accounting						
Bunker swap contracts (Note b)	–	5,262	5,262	–	5,484	5,484
Forward freight agreements (Note c)	402	–	402	3,070	–	3,070
Total	402	5,262	5,664	3,070	5,668	8,738
Less: non-current portion of						
Bunker swap contracts (Note b)	–	(361)	(361)	–	(1,488)	(1,488)
Interest rate swap contracts (Note a(i))	–	–	–	–	(184)	(184)
Non-current portion	–	(361)	(361)	–	(1,672)	(1,672)
Current portion	402	4,901	5,303	3,070	3,996	7,066
Derivative liabilities						
Cash flow hedges						
Interest rate swap contracts (Note a(i))	–	11,278	11,278	–	7,483	7,483
Forward foreign exchange contracts (Note d)	–	154	154	–	534	534
Derivative liabilities that do not qualify for hedge accounting						
Interest rate swap contracts (Note a(ii))	–	7,355	7,355	–	5,971	5,971
Bunker swap contracts (Note b)	–	1,374	1,374	–	437	437
Forward freight agreements (Note c)	700	–	700	4,268	–	4,268
Total	700	20,161	20,861	4,268	14,425	18,693
Less: non-current portion of						
Interest rate swap contracts (Note a(i))	–	(11,278)	(11,278)	–	(7,483)	(7,483)
Interest rate swap contracts (Note a(ii))	–	(7,355)	(7,355)	–	(5,971)	(5,971)
Bunker swap contracts (Note b)	–	(776)	(776)	–	(35)	(35)
Forward foreign exchange contracts (Note d)	–	(154)	(154)	–	(534)	(534)
Forward freight agreements (Note c)	–	–	–	(698)	–	(698)
Non-current portion	–	(19,563)	(19,563)	(698)	(14,023)	(14,721)
Current portion	700	598	1,298	3,570	402	3,972

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

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 ("FFA");
- 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 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. The fair values of forward foreign exchange contracts are determined using forward exchange market rates at the balance sheet date. The rest of the derivative assets and liabilities are over-the-counter derivatives which are not traded in an active market.

(a) Interest rate swap contracts

The Group has bank borrowings exposed to floating interest rates. In order to hedge against the fluctuations in interest rates related to the bank borrowings, the Group entered into interest rate swap contracts with banks to manage exposure to 3-month and 6-month floating rate LIBOR, and 3-month floating rate BBSW.

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

Effective date	Notional amount	Swap details	Expiry
2 January 2007	US$20 million	6-month floating rate LIBOR swapped to a fixed rate of approximately 5.6% per annum	Contract expires in January 2017
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
30 June 2009	A$19 million	3-month floating rate BBSW swapped to a fixed rate of approximately 5.2% per annum	Contract expires in June 2013
4 May 2010	A$9 million	3-month floating rate BBSW swapped to a fixed rate of approximately 4.8% per annum	Contract expires in May 2012

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

(a) Interest rate swap contracts (continued)

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

Effective 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 cash equivalents 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$2.6 million (2010: US$3.0 million).

(b) Bunker swap contracts

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

At 31 December 2011, the Group had outstanding bunker swap contracts to buy approximately 140,000 (2010: 133,000) metric tonnes of bunkers. These contracts expire through June 2016 (2010: June 2016).

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$8.3 million (2010: US$6.8 million). Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which would offset such increase/decrease of the Group's profit after tax and equity.

(c) Forward freight agreements

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 2011, the Group had outstanding forward freight agreements as follows:

Contract Type	Index	Quantity (days)	Contract Daily Price	Expiry thru
For 2011				
Buy	**BSI**	**360**	**US$11,925 to US$12,700**	**Dec 2012**
Sell	**BSI**	**360**	**US$12,000 to US$12,750**	**Dec 2012**
Buy	**BHI**	**270**	**US$9,000 to US$9,550**	**Dec 2012**
For 2010				
Buy	BSI	810	US$16,000 to US$21,750	Dec 2011
Sell	BSI	1,050	US$12,000 to US$21,500	Dec 2012
Buy	BHI	360	US$11,750 to US$14,000	Dec 2011
Sell	BHI	270	US$14,000 to US$15,000	Dec 2011

Note: "BSI" represents "Baltic Supramax Index" and "BHI" 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$0.5 million (2010: US$0.6 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.

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

(d) Forward foreign exchange contracts

The Group has long term bank borrowings denominated in Danish Kroner ("DKK") with maturity in February 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 the long term bank borrowings. These forward foreign exchange contracts qualify for hedge accounting as cash flow hedges.

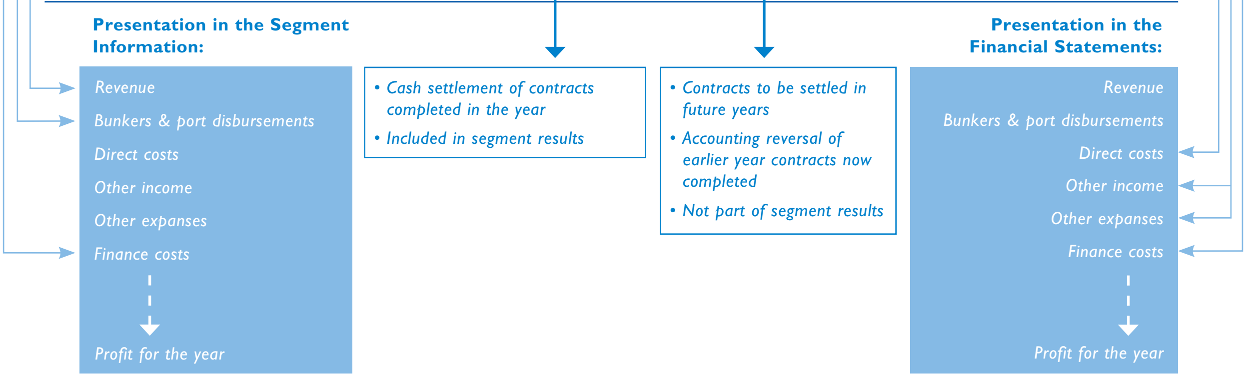
At 31 December 2011, the Group had outstanding forward foreign exchange contracts with banks to buy approximately DKK 615.8 million (2010: DKK 307.9 million) and simultaneously sell approximately EUR 82.7 million (2010: EUR 41.4 million), which expire through February 2023.

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$2.7 million (2010: US$0.8 million) mainly as a result of translation of cash and deposits denominated in Australian Dollars and Euro.

During the year ended 31 December 2011, the Group recognised net derivative income of US$8.3 million, as follows:

US$ Million	Realised	Unrealised	2011	2010
Income				
Forward freight agreements	4.7	4.6	9.3	29.8
Bunker swap contracts	17.8	3.3	21.1	12.9
Interest rate swap contracts	–	–	–	–
	22.5	7.9	30.4	42.7
Expenses				
Forward freight agreements	(5.3)	(3.7)	(9.0)	(36.6)
Bunker swap contracts	(1.8)	(4.4)	(6.2)	(15.1)
Interest rate swap contracts	(5.5)	(1.4)	(6.9)	(6.3)
	(12.6)	(9.5)	(22.1)	(58.0)
Net				
Forward freight agreements	(0.6)	0.9	0.3	(6.8)
Bunker swap contracts	16.0	(1.1)	14.9	(2.2)
Interest rate swap contracts	(5.5)	(1.4)	(6.9)	(6.3)
	9.9	(1.6)	8.3	(15.3)



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 2011 this created a net unrealised non-cash expense of US$1.6 million (2010: expense of US$12.4 million). The cash flows of these contracts will occur in future reporting years.

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 hedge

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.

At 31 December 2011, the forward foreign exchange contracts and all except one of the interest rate swap contracts qualified as cash flow hedges. The change in the fair value of these instruments during the year was recognised directly in the hedging reserve.

14 DERIVATIVE ASSETS AND LIABILITIES (continued)

Derivative financial instruments and hedging activities (continued)

(ii) Derivatives that do not qualify for hedge accounting

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

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

15 TRADE AND OTHER RECEIVABLES

	Group	
US$'000	**2011**	2010
Non-current receivables		
Finance lease receivables – gross	**5,392**	7,706
Less: unearned finance lease income	**(217)**	(914)
Finance lease receivables – net (Note b)	**5,175**	6,792
Current receivables		
Finance lease receivables – gross	**2,315**	2,309
Less: unearned finance lease income	**(697)**	(869)
Finance lease receivables – net (Note b)	**1,618**	1,440
Trade receivables – gross	**45,628**	31,052
Less: provision for impairment	**(615)**	(3,003)
Trade receivables – net (Note c)	**45,013**	28,049
Other receivables	**34,302**	46,487
Prepayments	**17,837**	16,548
Amounts due from jointly controlled entities (Note a)	**2,340**	12,785
Loan to a jointly controlled entity (Note a)	**–**	6,135
	101,110	111,444

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

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

15 TRADE AND OTHER RECEIVABLES (continued)

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) Amounts due from jointly controlled entities, OMSA and Seafuels Limited, are unsecured, non-interest bearing and repayable on demand.

(b) Finance leases receivables

At 31 December 2011 and 2010, the Group leased out a vessel under a finance lease. Under the terms of the lease, the charterer has the obligation to purchase the vessel at the end of the lease period.

The gross receivables, unearned finance lease income and the net receivables from a finance lease as at 31 December 2011 are as follows:

	Group	
US$'000	**2011**	2010
Gross receivables from finance lease		
Within one year	**2,315**	2,308
In the second year	**5,392**	2,315
In the third to fifth year	**–**	5,392
	7,707	10,015
Less: unearned future finance lease income	**(914)**	(1,783)
	6,793	8,232
Net receivables from finance lease		
Within one year	**1,618**	1,440
In the second year	**5,175**	1,618
In the third to fifth year	**–**	5,174
	6,793	8,232
Effective interest rate on finance lease receivables	**11.3%**	11.3%

15 TRADE AND OTHER RECEIVABLES (continued)

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

Finance leases occur where the lessee has substantially all the risks and rewards of ownership of an asset.

When assets are leased out under finance leases, the present value of the lease payments is recognised as receivables. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance lease interest income. Lease interest income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

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 transfer ownership of the assets to the Group at the end of the lease term, or the purchase options, if any, attached to the arrangements are sufficiently attractive as to make it reasonably certain that they would be exercised, they are being treated as finance leases.

(c) Trade receivables

At 31 December 2011, the ageing of net trade receivables is as follows:

	Group	
US$'000	**2011**	2010
Less than 30 days	**31,371**	19,536
31-60 days	**8,212**	4,280
61-90 days	**2,069**	1,164
Over 90 days	**3,361**	3,069
	45,013	28,049

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

	Group	
US$'000	**2011**	2010
At 1 January	**3,003**	1,548
Provision for receivable impairment	**1,135**	1,659
Receivable written off during the year as uncollectible	**(1,768)**	(204)
Unused amounts reversed	**(1,755)**	–
At 31 December	**615**	3,003

15 TRADE AND OTHER RECEIVABLES (continued)

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 normally will not 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 2011 and 2010, 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.

16 CASH AND DEPOSITS

	Group		Company	
US$'000	**2011**	2010	**2011**	2010
Cash at bank and on hand	**114,458**	226,191	**13**	13
Short term bank deposits	**503,763**	427,246	**–**	–
Notes receivable	**–**	50,000	**–**	–
Cash and deposits – gross	**618,221**	703,437	**13**	13
Restricted bank deposits included in non-current assets	**(8,566)**	(10,280)	**–**	–
Restricted bank deposits included in current assets	**(11,154)**	(3,421)	**–**	–
Restricted cash and deposits (Note)	**(19,720)**	(13,701)	**–**	–
Cash and deposits – net	**598,501**	689,736	**13**	13
Notes receivable	**–**	(50,000)	**–**	–
Cash and cash equivalents	**598,501**	639,736	**13**	13
Effective interest rate on year end deposits	**1.96%**	1.55%	**–**	–
Average remaining maturity of bank deposits	**95 days**	100 days	**–**	–

Note: The balances were held as securities with banks in relation to certain performance guarantees and bank loans.

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.

17 OTHER NON-CURRENT ASSETS

US$'000	Group 2011	Group 2010
Prepayments for acquisition of the vessel	**4,400**	–

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

18 INVENTORIES

US$'000	Group 2011	Group 2010
Bunkers	**62,308**	36,246
Lubricating oil	**4,565**	3,665
	66,873	39,911

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 STRUCTURED NOTES

Structured notes are classified as financial assets at fair value through profit or loss and please refer to Note 14 for the accounting policy.

Fair value as at 31 December 2011 is measured according to the Level 3 of the fair value hierarchy defined in HKFRS 7: Financial Instruments: Disclosures. Please refer to Note 13 Fair value levels for the definitions of different levels. Movements for the year ended 31 December 2011 are as follows:

US$'000	Group 2011	Group 2010
Additions	**43,301**	–
Disposals	**(30,356)**	–
Fair value losses	**(32)**	–
At 31 December	**12,913**	–

20 TRADE AND OTHER PAYABLES

US$'000	Group 2011	Group 2010
Trade payables	**51,600**	33,676
Accruals and other payables	**61,309**	56,471
Receipts in advance	**28,085**	27,215
Amounts due to jointly controlled entities (unsecured, non-interest bearing and repayable on demand)	**3,804**	9,886
	144,798	127,248

20 TRADE AND OTHER PAYABLES (continued)

At 31 December 2011, the ageing of trade payables is as follows:

	Group	
US$'000	**2011**	2010
Less than 30 days	**45,314**	27,414
31-60 days	**201**	859
61-90 days	**75**	272
Over 90 days	**6,010**	5,131
	51,600	33,676

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 LONG TERM BORROWINGS

	Group	
US$'000	**2011**	2010
Non-current		
Finance lease liabilities (Note a)	**151,432**	168,482
Secured bank loans (Note b)	**357,297**	325,646
Convertible bonds (Note c)	**204,987**	199,642
	713,716	693,770
Current		
Finance lease liabilities (Note a)	**17,050**	15,976
Secured bank loans (Note b)	**48,273**	43,350
Convertible bonds (Note d)	**–**	106,370
	65,323	165,696
Total long term borrowings	**779,039**	859,466

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.

21 LONG TERM BORROWINGS (continued)

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) Finance leases liabilities

At 31 December 2011, the Group leased certain 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. Lease liabilities are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2011 are as follows:

	Group	
US$'000	**2011**	2010
Gross liabilities under finance leases		
Within one year	**28,096**	28,105
In the second year	**28,086**	28,096
In the third of fifth year	**113,617**	130,899
After the fifth year	**39,036**	49,839
	208,835	236,939
Less: future finance charges on finance leases	**(40,353)**	(52,481)
	168,482	184,458
Average effective interest rates on finance lease payables	**6.8%**	6.8%

	Group	
US$'000	**2011**	2010
Net liabilities under finance leases		
Within one year	**17,050**	15,976
In the second year	**18,286**	17,049
In the third of fifth year	**96,057**	106,425
After the fifth year	**37,089**	45,008
	168,482	184,458
Fair value of the finance lease liabilities	**172,952**	191,667

21 LONG TERM BORROWINGS (continued)

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.

(b) Secured bank loans

The bank loans as at 31 December 2011 are secured, inter alia, by the following:

i) Mortgages over certain owned vessels with net book values of US$548,532,000 (2010: US$493,624,000) (Note 6);
ii) Assignment of earnings and insurances compensation in respect of the vessels;
iii) Fixed and floating charges over all of the assets of certain subsidiaries of the Group's towage business; and
iv) No cash and deposits (2010: US$5,323,000).

The maturities of the Group's bank loans are as follows:

	Group	
US$'000	**2011**	2010
Within one year	**48,273**	43,350
In the second year	**49,065**	42,650
In the third to fifth year	**230,330**	227,531
After the fifth year	**77,902**	55,465
	405,570	368,996
Average effective interest rate of bank loans (before hedging)	**2.6%**	2.5%

(c) Convertible bonds – 1.75% coupon convertible bonds due 2016

Issue size	US$230 million
Issue date	12 April 2010
Maturity date	12 April 2016 (6 years from issue)
Coupon – cash cost	1.75% p.a. payable semi-annually in arrears on 12 April and 12 October
Effective interest rate charged to income statement	4.70%
Redemption Price	100%
Conversion Price into shares	HK$7.35 (with effect from 16 August 2011) (Note)
Conversion at bondholders' options	i) until 11 January 2014, conversion can only take place if the closing price of the Company's shares is at least at a 20% premium to the conversion price then in effect for five consecutive trading days. ii) After 11 January 2014 conversion can take place at no premium.
Bondholder put date and price	On 12 April 2014 (4 years from issue), each bondholder will have the right to require the Group to redeem all or some of the bonds at 100% of the principal amount.
Issuer call date and price	On or after 12 April 2014, the Group may redeem the bonds in whole at a redemption price equal to 100% of their principal amount if the closing price of the Company's shares is at least at a 30% premium to the conversion price then in effect for thirty consecutive trading days.

Note: The conversion price 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.

21 LONG TERM BORROWINGS (continued)

(d) Convertible bonds – 3.3% coupon convertible bonds due 2013

3.3% coupon convertible bonds with an aggregate nominal value of US$80.9 million were redeemed and cancelled on 1 February 2011 at 100% of their principal amount. The Group exercised its call option on 1 February 2011 to redeem the remaining outstanding bonds with nominal value of US$24.3 million. These remaining outstanding bonds were redeemed and cancelled on 4 March 2011, thereby cancelling the 3.3% coupon convertible bonds in full.

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 issuing 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.

22 PROVISION FOR ONEROUS CONTRACTS

	Group	
US$'000	**2011**	2010
At 1 January	**2,031**	2,031
Charge for the year	**–**	–
Write-back for the year	**–**	–
Utilised during the year	**(2,031)**	–
At 31 December	**–**	2,031
Analysis of provision		
Current	**–**	2,031
Non-current	**–**	–
	–	2,031

Critical accounting estimates and judgements – 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. The Group estimates the provision for its non-cancellable operating lease 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 decrease by 15% from management estimates over the next 3 years, the provision for onerous contracts would increase by US$1.4 million in the next year. If the expected freight rates increase by 15%, the provision would remain unchanged.

23 SHARE CAPITAL

	2011		2010	
	Number of shares of US$0.1 each	US$'000	Number of shares of US$0.1 each	US$'000
Authorised	3,600,000,000	360,000	3,600,000,000	360,000
Issued and fully paid				
At 1 January	1,931,641,305	193,164	1,927,078,305	192,708
Shares issued upon exercise of share options (Note a)	–	–	778,000	78
Shares purchased by trustee of the LTIS (Note b)	(2,561,000)	(1,477)	(1,698,000)	(1,294)
Shares transferred to employees upon granting of restricted share awards (Note b)	3,167,000	1,538	4,192,000	1,543
Shares issued and transferred to employees upon granting of restricted share awards (Note b)	4,699,000	470	2,254,000	225
Shares transferred back to trustee upon lapse of restricted share awards (Note b)	(370,000)	(37)	(963,000)	(96)
At 31 December	1,936,576,305	193,658	1,931,641,305	193,164

(a) Share options

55,500,000 share options under the Company's Long Term Incentive Scheme ("LTIS") were granted to Directors, senior management 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 will expire on 14 July 2014. Movements in the number of share options outstanding during the year and their related weighted average exercise prices are as follows:

	2011		2010	
	Average exercise price per share HK$	Number of share options '000	Average exercise price per share HK$	Number of share options '000
At 1 January	2.5	400	2.50	1,178
Exercised (Note)	–	–	2.50	(778)
At 31 December	2.5	400	2.50	400

Note: In 2010, the related weighted average price of the Company's shares at the time of exercise was HK$5.36 per share.

At 31 December 2011 and 2010, all outstanding share options were exercisable.

23 SHARE CAPITAL (continued)

(b) Restricted share awards

Restricted share awards under the LTIS were granted to Directors, senior management and certain employees. The LTIS under HKFRS is regarded as a special purpose entity of the Company.

A total of 7,456,000, 206,000 and 204,000 (2010: 6,446,000) restricted share awards were granted and transferred to certain employees on 20 May 2011, 4 November 2011 and 30 December 2011, of which:

(i) 2,561,000 (2010: 1,698,000) shares were purchased by the trustee of the LTIS on the Stock Exchange at a total cost of US$1,477,000 (2010: US$1,294,000);

(ii) 4,699,000 (2010: 2,254,000) shares were issued by the Company at nominal value of US$0.10 each; and

(iii) 606,000 (2010: 2,494,000) shares were transferred from the shares held by the trustee.

The market price of the restricted share awards on the grant date represented the fair value of those shares. The above transfers of shares resulted in movements between share capital and staff benefit reserve of US$1,477,000, US$470,000 and US$61,000 (2010: US$1,294,000, US$225,000 and US$249,000) respectively. 370,000 (2010: 963,000) shares amounting to US$37,000 (2010: US$96,000) formerly transferred to certain employees lapsed. At 31 December 2011, there remained 814 (2010: 236,814) shares held by the trustee, amounting to US$100 (2010: US$24,000) as a debit to share capital.

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

Date of grant	Number of unvested share awards	Vesting periods 14 July 2012	Vesting periods 14 July 2013	Vesting periods 14 July 2014
9 June 2009	7,103,000	7,103,000	–	–
14 May 2010	5,811,000	185,000	5,626,000	–
4 November 2011	138,000	68,000	70,000	–
20 May 2011	7,330,000	317,000	317,000	6,696,000
30 December 2011	136,000	68,000	68,000	–
	20,518,000	7,741,000	6,081,000	6,696,000

Please refer to Report of the Directors section, subsection Share Capital (P.79) for the movements of the number of unvested restricted share awards during the year.

Accounting policy

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or 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.

24 RESERVES

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 2011	594,727	(56,606)	41,409	2,362	(7,834)	44,000	12,860	630,918	720,809	1,351,727
Release of investment valuation reserve upon disposal of available-for-sale financial assets	-	-	-	-	-	(60,502)	-	(60,502)	-	(60,502)
Fair value gains on available-for-sale financial assets	-	-	-	-	-	22,884	-	22,884	-	22,884
Impairment of available-for-sale financial assets charged to income statement	-	-	-	-	-	910	-	910	-	910
Cash flow hedges										
– fair value gains	-	-	-	-	(7,196)	-	-	(7,196)	-	(7,196)
– transferred to finance costs in consolidated income statement	-	-	-	-	3,598	-	-	3,598	-	3,598
Currency translation differences	-	-	-	-	-	-	(953)	(953)	-	(953)
Profit attributable to shareholders	-	-	-	-	-	-	-	-	31,982	31,982
Share-based compensation (see Remuneration Report)	-	-	-	4,213	-	-	-	4,213	-	4,213
Derecognition of the equity component upon repurchase and cancellation of convertible bonds (Note 21(d))	-	-	(9,107)	-	-	-	-	(9,107)	9,107	-
Shares fully vested	2,397	-	-	(2,397)	-	-	-	-	-	-
Shares transferred upon granting and lapse of restricted share awards (Note 23(b))	-	-	-	(1,971)	-	-	-	(1,971)	-	(1,971)
Dividends paid (Note 29)	-	-	-	-	-	-	-	-	(53,435)	(53,435)
At 31 December 2011	597,124	(56,606)	32,302	2,207	(11,432)	7,292	11,907	582,794	708,463	1,291,257
Representing:										
2011 Proposed final dividend									12,480	
Others									695,983	
Retained profit at 31 December 2011									708,463	

24 RESERVES (continued)

	Group									
	Other reserves									
US$'000	Share[a] premium	Merger[b] reserve	Convertible bonds reserve	Staff benefits reserve	Hedging reserve	Investment valuation reserve	Exchange reserve	Subtotal	Retained profits	Total
At 1 January 2010	586,741	(56,606)	27,180	8,257	13,838	20,121	3,989	603,520	659,339	1,262,859
Fair value gains on available-for-sale financial assets	–	–	–	–	–	29,320	–	29,320	–	29,320
Release of investment valuation reserve upon disposal of available-for-sale financial assets	–	–	–	–	–	(5,441)	–	(5,441)	–	(5,441)
Cash flow hedges										
– transferred to property, plant and equipment	–	–	–	–	(15,431)	–	–	(15,431)	–	(15,431)
– transferred to finance costs in consolidated income statement	–	–	–	–	(3,698)	–	–	(3,698)	–	(3,698)
– fair value gains	–	–	–	–	(2,543)	–	–	(2,543)	–	(2,543)
Currency translation differences	–	–	–	–	–	–	8,871	8,871	–	8,871
Profit attributable to shareholders	–	–	–	–	–	–	–	–	104,338	104,338
Equity component of convertible bonds issued	–	–	32,302	–	–	–	–	32,302	–	32,302
Derecognition of the equity component upon repurchase and cancellation of convertible bonds	–	–	(18,073)	–	–	–	–	(18,073)	6,505	(11,568)
Share-based compensation (see Remuneration Report)	–	–	–	3,911	–	–	–	3,911	–	3,911
Shares transferred upon granting and lapse of restricted share awards (Note 23(b))	–	–	–	(1,672)	–	–	–	(1,672)	–	(1,672)
Share fully vested	7,731	–	–	(8,052)	–	–	–	(321)	321	–
Share issued upon exercise of share options	255	–	–	(82)	–	–	–	173	–	173
Dividends paid (Note 29)	–	–	–	–	–	–	–	–	(49,694)	(49,694)
At 31 December 2010	594,727	(56,606)	41,409	2,362	(7,834)	44,000	12,860	630,918	720,809	1,351,727
Representing:										
2010 Final dividend									41,019	
Others									679,790	
Retained profit at 31 December 2010									720,809	

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

(b) Merger reserve of the Group 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.

24 RESERVES (continued)

	Company				
	Other reserves				
US$'000	Share Premium	Staff benefits reserve	Subtotal	Retained profits	Total
At 1 January 2011	**594,727**	**2,362**	**597,089**	**701,032**	**1,298,121**
Profit attributable to shareholders (Note 28)	**–**	**–**	**–**	**48,380**	**48,380**
Share-based compensation (see Remuneration Report)	**–**	**4,213**	**4,213**	**–**	**4,213**
Shares transferred upon granting and lapse of restricted share awards (Note 23(b))	**–**	**(1,971)**	**(1,971)**	**–**	**(1,971)**
Share fully vested	**2,397**	**(2,397)**	**–**	**–**	**–**
Dividends paid (Note 29)	**–**	**–**	**–**	**(53,435)**	**(53,435)**
At 31 December 2011	**597,124**	**2,207**	**599,331**	**695,977**	**1,295,308**
Representing:					
2011 Proposed final dividend				**12,480**	
Others				**683,497**	
Retained profits as at 31 December 2011				**695,977**	
At 1 January 2010	586,741	8,257	594,998	626,510	1,221,508
Profit attributable to shareholders (Note 28)	–	–	–	123,895	123,895
Share-based compensation (see Remuneration Report)	–	3,911	3,911	–	3,911
Shares transferred upon granting and lapse of restricted share awards (Note 23(b))	–	(1,672)	(1,672)	–	(1,672)
Share fully vested	7,731	(8,052)	(321)	321	–
Shares issued upon exercise of share options	255	(82)	173	–	173
Dividends paid (Note 29)	–	–	–	(49,694)	(49,694)
At 31 December 2010	594,727	2,362	597,089	701,032	1,298,121
Representing:					
2010 Final dividend				41,019	
Others				660,013	
Retained profits as at 31 December 2010				701,032	

25 OTHER INCOME AND GAINS

US$'000	2011	2010
Gains		
Gains on disposal of available-for-sale financial assets	55,816	15,984
Gains on forward freight agreements	9,326	29,831
Utilisation of provision for onerous contracts	2,031	–
Write-back of provision for impairment of other receivables	–	1,361
	67,173	47,176

During the year, the Group sold its remaining shareholdings in Green Dragon Gas Limited realising a gain of US$55.8 million.

26 FINANCE INCOME AND COSTS

US$'000	2011	2010
Finance income		
Bank interest income	(11,998)	(18,069)
Finance lease interest income	(869)	(1,024)
	(12,867)	(19,093)
Finance costs		
Borrowings wholly repayable within five years		
Interest on bank loans	5,198	4,797
Interest on finance leases	6,882	7,557
Interest on convertible bonds	10,009	14,131
Borrowings not wholly repayable within five years		
Interest on bank loans	10,150	4,990
Interest on finance leases	5,247	5,629
Interest on convertible bonds	–	6,585
Other finance charges	1,062	323
Net losses on interest rate swap contracts	6,931	6,274
	45,479	50,286
Less: amounts capitalised on qualifying assets (Note 6)	(1,280)	–
Total finance costs	44,199	50,286
Finance costs, net	31,332	31,193

27 TAXATION

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

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

US$'000	2011	2010
Current taxation		
Hong Kong profits tax, provided at the rate of 16.5% (2010: 16.5%)	469	1,047
Overseas tax, provided at the rates of taxation prevailing in the countries	1,313	745
Overprovision of prior year	(1,585)	(1,339)
	197	453

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	2011	2010
Profit before taxation	32,179	104,791
Less: share of profits less losses of jointly controlled entities	(508)	(1,805)
Add: share of profits less losses of associates	9,992	192
	41,663	103,178
Tax calculated at applicable tax rates	5,163	17,376
Income not subject to taxation	(88,631)	(86,960)
Expenses not deductible for taxation purposes	82,463	65,411
Tax losses for which no deferred income tax asset was recognised	2,787	5,965
Overprovision of prior year	(1,585)	(1,339)
Taxation charge	197	453
Weighted average applicable tax rate	12.4%	16.8%

The Group has not recognised deferred income tax assets of US$10,274,000 (2010: US$7,487,000) in respect of tax losses amounting to US$36,735,000 (2010: US$24,955,000). These tax losses have no expiry date.

27 TAXATION (continued)

Critical accounting estimates and judgements – Income taxes

The Group is subject to income taxes in certain jurisdictions. There are transactions entered into where the ultimate tax determination and tax classification may be uncertain. Significant judgement is required in determining the provision for income taxes. The current provision for income tax of US$2,139,000 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, jointly controlled entities 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 substantially 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, jointly controlled entities 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.

28 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

US$48,380,000 (2010: US$123,895,000) of the profit attributable to shareholders is dealt with in the financial statements of the Company.

29 DIVIDENDS

	2011 HK cents per share	2011 US cents per share	2011 US$'000	2010 HK cents per share	2010 US cents per share	2010 US$'000
Interim dividend	**5.0**	**0.6**	**12,416**	5.0	0.6	12,422
Proposed final dividend	**5.0**	**0.6**	**12,480**	16.5	2.1	41,019
	10.0	**1.2**	**24,896**	21.5	2.7	53,441
Dividend paid during the year	**21.5**	**2.7**	**53,435**	20.0	2.5	49,694

The proposed final dividend is subject to approval by the shareholders at the Annual General Meeting on 19 April 2012.

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

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's LTIS (Note 23(b)).

		2011	2010
Profit attributable to shareholders	(US$'000)	**31,982**	104,338
Weighted average number of ordinary shares in issue	('000)	**1,934,084**	1,929,463
Basic earnings per share	(US cents)	**1.65**	5.41
Equivalent to	(HK cents)	**12.88**	42.01

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year after adjusting for the number of potential dilutive ordinary shares granted under the Company's LTIS but excluding the shares held by the trustee of the Company's LTIS (Note 23(b)).

		2011	2010
Profit attributable to shareholders	(US$'000)	**31,982**	104,338
Weighted average number of ordinary shares in issue	('000)	**1,934,084**	1,929,463
Adjustments for share options	('000)	**161**	224
Weighted average number of ordinary shares for diluted earnings per share	('000)	**1,934,245**	1,929,687
Diluted earnings per share	(US cents)	**1.65**	5.41
Equivalent to	(HK cents)	**12.88**	42.00

31 NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

Reconciliation of profit before taxation to cash generated from operations

US$'000	Group 2011	2010
Profit before taxation	32,179	104,791
Adjusted for:		
Assets and liabilities adjustments:		
Provision for/(write-back of) impairment losses		
– Property, plant and equipment	80,000	–
– Available-for-sale financial assets	1,887	–
– Trade receivables	(620)	1,659
– Other non-current assets	–	11,775
– Goodwill included as interests in jointly controlled entities	–	7,233
– Other receivables	–	(1,361)
Depreciation	73,478	58,004
Amortisation of land use rights	113	108
Gains on disposal of available-for-sale financial assets	(55,816)	(15,984)
Utilisation of provision for onerous contracts	(2,031)	–
Net unrealised losses on derivative instruments not qualified as hedges, excluding interest rate swap contracts	259	11,575
Fair value losses on structured notes	32	–
Capital and funding adjustments:		
Share-based compensation	4,213	3,911
Losses on repurchase and cancellation of convertible bonds	–	651
Results adjustments:		
Finance costs, net	31,332	31,193
Share of profits less losses of associates	9,992	192
Share of profits less losses of jointly controlled entities	(508)	(1,805)
Exchange differences	2,526	5,540
Profit before taxation before working capital changes	177,036	217,482
Increase in inventories	(27,127)	(5,886)
Increase in trade and other payables	16,327	14,637
Increase in trade and other receivables	(5,781)	(26,050)
Cash generated from operations	160,455	200,183

32 COMMITMENTS

(a) Capital commitments

US$'000	Group 2011	2010
Contracted but not provided for		
– vessel acquisitions and shipbuilding contracts	**322,428**	321,361
– investment in unlisted equity securities	**12,100**	12,879
– investment in an associate	**–**	2,516
	334,528	336,756
Authorised but not contracted for		
– vessel acquisitions and shipbuilding contracts	**–**	90,100
	334,528	426,856

Capital commitments that fall due in not later than one year amounted to US$181.2 million (2010: US$170.7 million).

As at 31 December 2011 and 2010, the Company has no capital commitment.

(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 lease.

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.

32 COMMITMENTS (continued)

(b) Commitments under operating leases (continued)

(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	Tug	Vessels total	Land and buildings	Total
At 31 December 2011					
Within one year	**188,665**	**973**	**189,638**	**3,615**	**193,253**
In the second to fifth year	**246,003**	**–**	**246,003**	**5,404**	**251,407**
After the fifth year	**104,405**	**–**	**104,405**	**822**	**105,227**
	539,073	**973**	**540,046**	**9,841**	**549,887**
At 31 December 2010					
Within one year	118,535	935	119,470	3,233	122,703
In the second to fifth year	175,956	505	176,461	7,160	183,621
After the fifth year	66,041	–	66,041	1,341	67,382
	360,532	1,440	361,972	11,734	373,706

Contingent lease payments made amounted to US$44,150,000 (2010: US$10,926,000). These relate to chartered-in dry bulk vessels on an index linked basis.

The leases have varying terms ranging from less than 1 year to 11 years. Certain of these 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.

32 COMMITMENTS (continued)

(b) Commitments under operating leases (continued)

(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	RoRo	Tug	Vessels total	Land and buildings	Total
At 31 December 2011						
Within one year	**24,626**	**10,226**	**7,266**	**42,118**	**117**	**42,235**
In the second to fifth year	**57,667**	**–**	**–**	**57,667**	**–**	**57,667**
After the fifth year	**62,496**	**–**	**–**	**62,496**	**–**	**62,496**
	144,789	**10,226**	**7,266**	**162,281**	**117**	**162,398**
At 31 December 2010						
Within one year	24,145	23,437	14,068	61,650	232	61,882
In the second to fifth year	63,584	60,481	5,649	129,714	88	129,802
After the fifth year	50,616	–	–	50,616	–	50,616
	138,345	83,918	19,717	241,980	320	242,300

(a) Operating lease commitment with the Group as the lessor for dry bulk vessels mainly included the commitments from two post panamax vessels of US$136.1 million.

The Group's operating leases are for 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.

33 FINANCIAL LIABILITIES SUMMARY

This note should be read in conjunction with the liquidity risk in Governance – Risk Section on P.60.

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.

	Within one year		In the second year		In the third to fifth year		After the fifth year		Total	
US$'000	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010	**2011**	2010
Long term borrowings										
– Gross liabilities under finance leases	**28,096**	28,105	**28,086**	28,096	**113,617**	130,899	**39,036**	49,839	**208,835**	236,939
– Secured bank loans	**61,018**	54,359	**58,532**	52,932	**251,608**	257,103	**87,431**	63,710	**458,589**	428,104
– Convertible bonds	**4,025**	111,048	**4,025**	4,025	**240,063**	12,075	**–**	232,013	**248,113**	359,161
	93,139	193,512	**90,643**	85,053	**605,288**	400,077	**126,467**	345,562	**915,537**	1,024,204
Derivative financial instruments										
(i) Net-settled (Note a)										
– Interest rate swap contracts	**4,456**	4,783	**5,594**	4,737	**8,971**	4,459	**10**	449	**19,031**	14,428
– Bunker swap contracts	**599**	402	**602**	35	**173**	–	**–**	–	**1,374**	437
– Forward freight agreements	**700**	3,570	**–**	698	**–**	–	**–**	–	**700**	4,268
	5,755	8,755	**6,196**	5,470	**9,144**	4,459	**10**	449	**21,105**	19,133
(ii) Gross-settled (Note b)										
Forward foreign exchange contracts										
– Cash flow hedges:										
– outflow	**14,233**	7,456	**13,817**	7,211	**39,021**	20,288	**64,686**	34,460	**131,757**	69,415
– inflow	**(14,039)**	(7,330)	**(13,653)**	(7,097)	**(38,773)**	(19,781)	**(65,219)**	(33,416)	**(131,684)**	(67,624)
Net outflow/(inflow)	**194**	126	**164**	114	**248**	507	**(533)**	1,044	**73**	1,791
Current liabilities										
Trade and other payables	**116,713**	100,033	**–**	–	**–**	–	**–**	–	**116,713**	100,033

Notes:

(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.

34 SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions carried out in the normal course of the Group's business and on an arm's length basis were as follows:

(a) Purchases of services

US$'000	2011	2010
Management fee and commission paid to Meridian Shipping (Note i)	**1,098**	241
Management fee and commission paid to Meridian Marine (Note ii)	**1,063**	305

Note:

(i) The Group paid to Meridian Shipping, a jointly controlled entity, management fees and commissions in relation to commercial management services.

(ii) The Group paid to Meridian Marine, a jointly controlled entity, management fees and commissions in relation to technical management services.

(b) Sales of services

US$'000	2011	2010
Charter-hire income received from OMSA (Note i)	**19,366**	13,297
Service fee received from OMSA	**7,415**	8,276
Charter-hire income received from NGB (Note ii)	**8,452**	8,276
Charter-hire income received from FBSL	**–**	2,112
Management fee income received from FBSL	**–**	2,973
Termination fee received from FBSL	**–**	3,300

Note:

(i) The Group leased out certain vessels to OMSA, a jointly controlled entity.

(ii) The Group leased out certain vessels to NGB, an associate.

(c) For the key management compensation (including Directors' emoluments), please refer to Note 2 and Note 3 of the Remuneration Report on P.74 and P.75.

35 FINANCIAL GUARANTEES

At 31 December 2011, the Company has given corporate guarantees with maximum exposures of US$368.8 million (2010: US$351.2 million) for certain subsidiaries of Pacific Basin Dry Bulk, PB Towage and PB RoRo 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 2011 and 2010.

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

Subsequent to 31 December 2011, the Group has disposed of its 100% equity interest in a wholly-owned subsidiary, whose principal business is the provision of marine surveying and consultancy service, at a consideration of US$2.2 million which will be settled in cash. No significant gain or loss is expected to arise on the disposal. The valuation of the subsidiary is determined by management. The transaction was completed on 21 February 2012.

38 PRINCIPAL SUBSIDIARIES

At 31 December 2011, the Company has direct and indirect interest in the following principal subsidiaries:

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2011 %	Interest held 2010 %	Principal activities
Shares held directly:					
Others:					
PB Vessels Holding Limited	BVI	501,118,775 shares of US$1 each	100	100	Investment holding
PB Management Holding Limited	BVI	12,313 shares of US$1 each	100	100	Investment holding
PB Issuer (No. 2) Limited (Formerly "Olympic Star Limited")	BVI	1 share of US$1	100	100	Bond issuer
Shares held indirectly:					
Pacific Basin Dry Bulk:					
Alumina Mountain Limited	BVI	1 share of US$1	100	100	Vessel owning
Amur River Limited	BVI	1 share of US$1	100	100	Vessel owning
Astoria Bay Limited	HK	1 share of HK$1	100	–	Vessel owning
Bernard (BVI) Limited	BVI/Int'l	5,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Bright Cove Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Cape York Shipping Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Champion Bay Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Coal Mountain Limited	BVI	1 share of US$1	100	100	Vessel owning
Delphic Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Elizabay Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Elizabeth Castle Limited	BVI	1 share of US$1	100	100	Vessel chartering
Esperance Bay Limited	HK/Int'l	1 share of HK$ 1	100	100	Vessel owning and chartering
Everclear Shipping (BVI) Limited	BVI/Int'l	3,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Foreview (HK) Limited	HK/Int'l	10 Class 'A' shares of US$1 each, 2,500,000 Class 'B' shares of US$1 each	100	100	Vessel owning and chartering
Francesca Shipping (BVI) Limited	BVI/Int'l	3,000,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Future Sea Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Good Shape Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Grain Mountain Limited	BVI	1 share of US$1	100	100	Vessel owning
Helen Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Hondo River Limited	BVI	1 share of US$1	100	100	Vessel owning
Judith Shipping (BVI) Limited	BVI/Int'l	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Kaiti Hill Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Labrador Shipping (BVI) Limited	BVI/Int'l	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Lake Stevens Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Luzon Strait Shipping (BVI) Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Matakana Island Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Mega Fame Limited	BVI	1 share of US$1	100	100	Vessel owning and chartering
Mount Adams Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Mount Rainier Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Newman Shipping (BVI) Limited	BVI/Int'l	2,600,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Niagara River Limited	BVI	1 share of US$1	100	100	Vessel owning
Nobal Sky Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Olympic Harbour Limited	BVI	1 share of US$1	100	100	Vessel owning
Olympic River Limited	BVI	1 share of US$1	100	100	Vessel owning
Othello Shipping (BVI) Limited	BVI/Int'l	2,659,300 shares of US$0.01 each	100	100	Vessel owning and chartering
Pacific Basin Chartering Limited	BVI/Int'l	10 shares of US$1 each	100	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 2) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 3) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 4) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering

38 PRINCIPAL SUBSIDIARIES (continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2011 %	2010 %	Principal activities
Pacific Basin Chartering (No. 5) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 6) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 7) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 8) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 9) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 10) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 11) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Petcoke Mountain Limited	BVI	1 share of US$1	100	100	Vessel owning
Phosphate Mountain Limited	BVI	1 share of US$1	100	100	Vessel owning
Pigeon River Limited	BVI	1 share of US$1	100	100	Vessel owning
Port Alice Limited	BVI	1 share of US$1	100	–	Vessel owning and chartering
Port Angeles Limited	HK	1 share of HK$1	100	100	Vessel owning and chartering
Port Botany Limited	BVI	1 share of US$1	100	–	Vessel owning and chartering
Supreme Effort Group Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Uhland Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Verner Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	100	100	Vessel owning and chartering
West Bay Shipping Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Wheat Mountain Limited	BVI	1 share of US$1	100	100	Vessel owning
PB Energy & Infrastructure Services:					
AMS Salvage and Towage Pty. Ltd.	AUS/Int'l	100 shares of AUD1 each	100	100	Tugs owning and chartering
PacMarine Services Co., Ltd.	Korea	10,000 shares of KRW5,000 each	100	100	Surveying and consultancy services
PacMarine Services (HK) Limited	HK	2 shares of HK$1 each	100	100	Surveying and consultancy services
PacMarine Services LLC[1]	Texas, USA	1,000 units of US$1 each	100	100	Surveying and consultancy services
PacMarine Services Pte. Ltd.[1]	Singapore	1,000 shares of S$1 each	100	100	Surveying and consultancy services
PB Maritime Services (Australia) Pty. Ltd.	AUS	1 shares without par value	100	–	Ship management services
PB Diamantina Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Offshore (No.2) Limited	Cook/Int'l	10 shares of US$1 each	100	100	Tug owning and chartering
PB Pearl Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug & barge owning and chartering
PB Pride Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug & barge owning and chartering
PB Progress Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Sea-Tow Asia Pte. Ltd.	Singapore	1 share of US$1	100	100	Tugs chartering
PB Sea-Tow (Australia) Pty Ltd	AUS	1 share of AUD1	100	100	Ship management services
PB Sea-Tow (Awanuia) Limited	New Zealand	100 shares without par value	100	100	Crew management services
PB Sea-Tow (BVI) Limited	BVI/Int'l	1 share of US$1	100	100	Ship management services
PB Sea-Tow Niugini Pte. Ltd.	Singapore	1 share of S$1	100	100	Tugs chartering and operation
PB Sea-Tow (NZ) Limited	New Zealand	1 share without par value	100	100	Ship management services
PB Sea-Tow Projects (Australia) Pty Ltd	AUS	1 share without par value	100	–	Ship management services
PB Towage (No.1) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage (No.2) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage (No.3) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Barges owning and chartering
PB Towage (No.4) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage (No.5) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tugs owning and chartering
PB Towage Asset (No.1) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage Asset (No.2) Limited	Cook/Int'l	2 shares of US$1 each	100	100	Tug owning and chartering
PB Towage Assets #3 Pty Ltd	AUS/Int'l	1 share of AUD1	100	100	Tugs owning and chartering
PB Towage Assets #4 Pty Ltd	AUS/Int'l	1 share of AUD1	100	100	Tugs owning and chartering
PB Towage Australia (Onslow) Pty Ltd	AUS/Int'l	1 share of AUD1	100	100	Tugs owning and chartering
PB Towage (Australia) Holdings Pty Ltd	AUS/Int'l	57,589,338 shares of AUD1 each	100	100	Tugs owning and chartering
PB Towage (Australia) Pty Ltd	AUS	1,390,100 shares of AUD2.34 each	100	100	Ship management services
PB Towage Middle East Limited	Cook/Int'l	2 shares of US$1 each	100	100	Ship management services

38 PRINCIPAL SUBSIDIARIES (continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2011 %	Interest held 2010 %	Principal activities
PB RoRo:					
Dover Sole Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Gibraltar Strait Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Illuminous Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Kumberstar Limited	BVI	1 share of US$1	100	100	Vessel owning
Prospect Number 59 Limited	E&W	1 share of GBP1	100	100	Vessel owning and chartering
Prospect Number 60 Limited	E&W	1 share of GBP1	100	100	Vessel owning and chartering
Others:					
Asia Pacific Capital Developments Limited 亞太資本發展有限公司	HK	1 share of HK$1	100	100	Property holding
Asia Pacific Fortune (HK) Limited 亞太財富（香港）有限公司	HK	1 share of HK$1	100	100	Investment holding of PRC terminal
Bulk Ventures Limited	BVI	1 share of US$1	100	100	Investment holding
Great Prosperity Business Management Consulting (Wuhan) Limited [1 & 2] 漢隆企業管理諮詢（武漢）有限公司	PRC	US$2,900,000 (registered capital)	100	100	Property holding
Pacific Basin Agencies Limited 太平洋航運代理有限公司	HK/Int'l	1 share of HK$1	100	100	Holding company of Japan branch
Pacific Basin Handymax Limited	HK	1 share of HK$1	100	100	Ship management services
Pacific Basin Handymax (UK) Limited	E&W	1 share of GBP1	100	100	Ship management services
Pacific Basin Handysize Limited	BVI/HK	10 shares of US$1 each	100	100	Ship management services
Pacific Basin Handysize (HK) Limited	HK	1 share of HK$1	100	100	Ship management services
Pacific Basin Handysize (UK) Limited	E&W	2 shares of GBP1 each	100	100	Ship management services
Pacific Basin Shipping (Australia) Pty Ltd [1]	AUS	1 share of AUD1	100	100	Shipping consulting services
Pacific Basin Shipping (Canada) Limited	BC, Canada	1 common share without par value	100	100	Shipping consulting services
Pacific Basin Shipping (Chile) Limitada	Chile, Santiago	Chilean pesos equivalent to US$6,000	100	100	Shipping consulting services
Pacific Basin Shipping Consulting (Shanghai) Limited [1 & 2] 沛碧航運管理諮詢（上海）有限公司	PRC	US$3,500,000 (registered capital)	100	100	Shipping consulting services
Pacific Basin Shipping, Denmark ApS	Denmark	800 shares of DKK100 each	100	–	Shipping consulting services
Pacific Basin Shipping (Germany) GmbH	Germany	1 share of EUR25,000	100	100	Shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運（香港）有限公司	HK	2 shares of HK$10 each	100	100	Ship agency services
Pacific Basin Shipping Middle East DMCC [1]	Dubai Multi Commodities Centre (DMCC)	500 shares of AED1,000 each	100	100	Shipping consulting services
Pacific Basin Shipping (New Zealand) Limited [1]	New Zealand	100 shares without par value	100	100	Shipping consulting services
Pacific Basin Shipping (South Africa) Pty Ltd	Republic of South Africa	120 shares without par value	100	–	Shipping consulting services
Pacific Basin Shipping (UK) Limited	E&W	2 shares of GBP1 each	100	100	Shipping consulting services
Pacific Basin Shipping (USA) Inc.	USA	100 shares of US$10 each	100	100	Ship management services
PB Bunkers (BVI) Limited	BVI/Int'l	1 share of US$1	100	100	Joint venture partner in Seafuels Limited
PB Commerce Limited	BVI/HK	1 share of US$1	100	100	Investment holding
PB Maritime Services Limited	HK	1 share of HK$1	100	100	Ship management services
PB Maritime Personnel Inc.[1]	The Philippines	1,730,000 shares of PHP10 each	100	100	Crewing services
PBS Corporate Secretarial Limited	HK	1 share of HK$1	100	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	100	Ship agency and 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$12,977,000 (2010: US$13,020,000) and US$248,000 loss (2010: US$308,000 loss) respectively.

2 These subsidiaries are wholly foreign-owned enterprises established in the PRC, with registered capital fully paid up by the Group.

3 Under the place of incorporation/operation, "AUS" represents "Australia", "BVI" represents "The British Virgin Islands", "Cook" represents "The Cook Island", "E&W" represents "England and Wales", "HK" represents "Hong Kong" and "Int'l" represents "International".

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 92 to 150, which comprise the consolidated and company balance sheets as at 31 December 2011, 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 2011, and of the Group's profit 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, 1 March 2012

Group Financial Summary

US$'000		**2011**	2010	2009	2008	2007
Results						
Revenue		**1,342,535**	1,268,542	950,477	1,690,948	1,177,292
Gross profit		**107,646**	159,329	152,796	358,597	384,522
Eligible profit attributable to shareholders		**31,982**	104,338	112,800	297,911	472,125
Profit before taxation		**32,179**	104,791	112,001	412,408	473,021
Taxation		**(197)**	(453)	(1,723)	(3,618)	(889)
Profit after taxation		**31,982**	104,338	110,278	408,790	472,132
Attributable to:						
Shareholders		**31,982**	104,338	110,278	409,119	472,125
Non-controlling interests		**–**	–	–	(329)	7
		31,982	104,338	110,278	408,790	472,132
Balance Sheet						
Total assets		**2,431,752**	2,555,388	2,469,893	2,330,505	1,654,336
Total liabilities		**(946,837)**	(1,010,497)	(1,014,326)	(1,111,803)	(786,769)
Total equity		**1,484,915**	1,544,891	1,455,567	1,218,702	867,567
Net borrowings/(cash)		**160,818**	156,029	(229,084)	(175,929)	10,730
Cash and deposits		**618,221**	703,437	1,105,662	1,023,741	649,535
Cash Flows						
From operating activities		**159,361**	198,577	145,337	459,083	313,979
From investment activities of which		**(35,028)**	(462,154)	(177,776)	(244,496)	101,982
gross investment in vessels		**(167,592)**	(540,612)	(279,543)	(316,757)	(257,464)
From financing activities		**(166,322)**	(96,532)	55,718	110,754	170,332
Change in cash and cash equivalent for the year		**(41,989)**	(360,109)	23,279	325,341	586,293
Other Data						
Basic EPS	US cents	**2**	5	6	24	30
Dividends per share[1]	US cents	**1**	3	3	10	15
Eligible profit payout ratio[2]		**78%**	51%	51%	57%	52%
Cash flows from operating activities per share	US cents	**8**	10	8	27	20
Net book value per share	US cents	**77**	80	76	70	55
Dividends	US$'000	**24,896**	53,441	57,184	170,142	244,127

1 The 2011 dividends include the proposed final dividend of HK 5 cents per share.

2 Prior to and including the 2008 Interim Report, eligible profit included all attributable profit in the period, but after the 2008 Interim Report eligible profit excluded vessel disposal gains.

website Group financial summary since listing

BOARD OF DIRECTORS

EXECUTIVE DIRECTORS
Mr. David M. Turnbull (Chairman)
Mr. Klaus Nyborg (Chief Executive Officer)
Mr. Jan Rindbo (Chief Operating Officer)
Mr. Andrew T. Broomhead (Chief Financial Officer)
Mr. Wang Chunlin

NON-EXECUTIVE DIRECTOR
Mr. Richard M. Hext

INDEPENDENT NON-EXECUTIVE DIRECTORS
Mr. Patrick B. Paul
Mr. Robert C. Nicholson
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

PRINCIPAL BOARD COMMITTEES

EXECUTIVE COMMITTEE
Mr. Klaus Nyborg (Chairman)
Mr. David M. Turnbull
Mr. Jan Rindbo
Mr. Andrew T. Broomhead
Mr. Wang Chunlin

p.70 Directors & Senior Management biographies

AUDIT COMMITTEE
Mr. Patrick B. Paul (Chairman)
Mr. Robert C. Nicholson
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

REMUNERATION AND NOMINATION COMMITTEES
Mr. Robert C. Nicholson (Chairman)
Mr. Patrick B. Paul
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

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Linklaters
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COMPANY SECRETARY
Mr. Andrew T. Broomhead, FCPA
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LISTING VENUE/LISTING DATE
The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")/14 July 2004

STOCK CODE
Stock Exchange: 2343.HK
Bloomberg: 2343 HK
Reuters: 2343.HK

PUBLIC AND INVESTOR RELATIONS
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TOTAL SHARES IN ISSUE
1,936,577,119 as at 31 December 2011

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