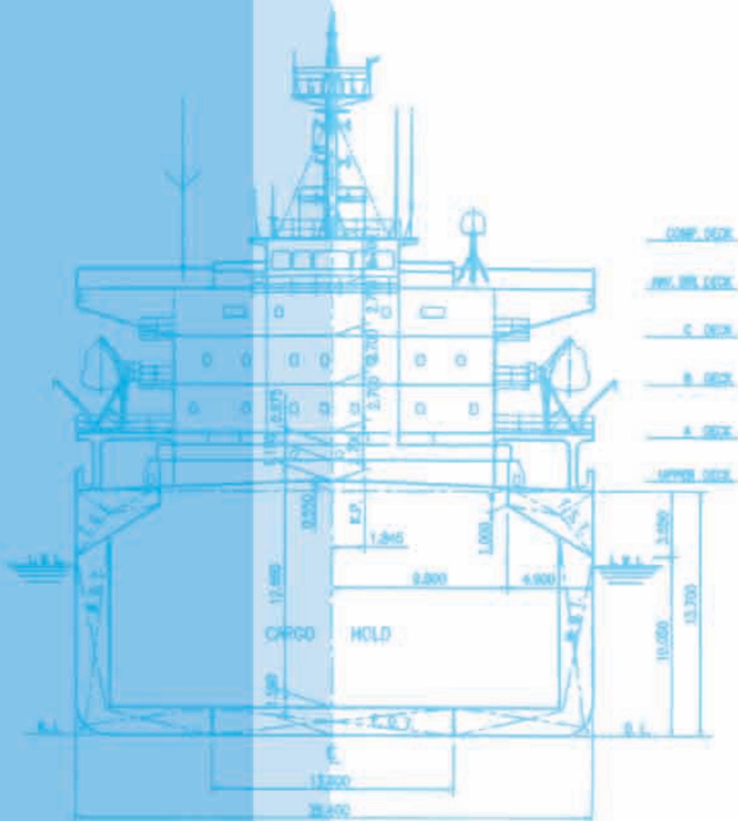
Pacific Basin Shipping Limited

Annual Report 2004


COMP. DECK
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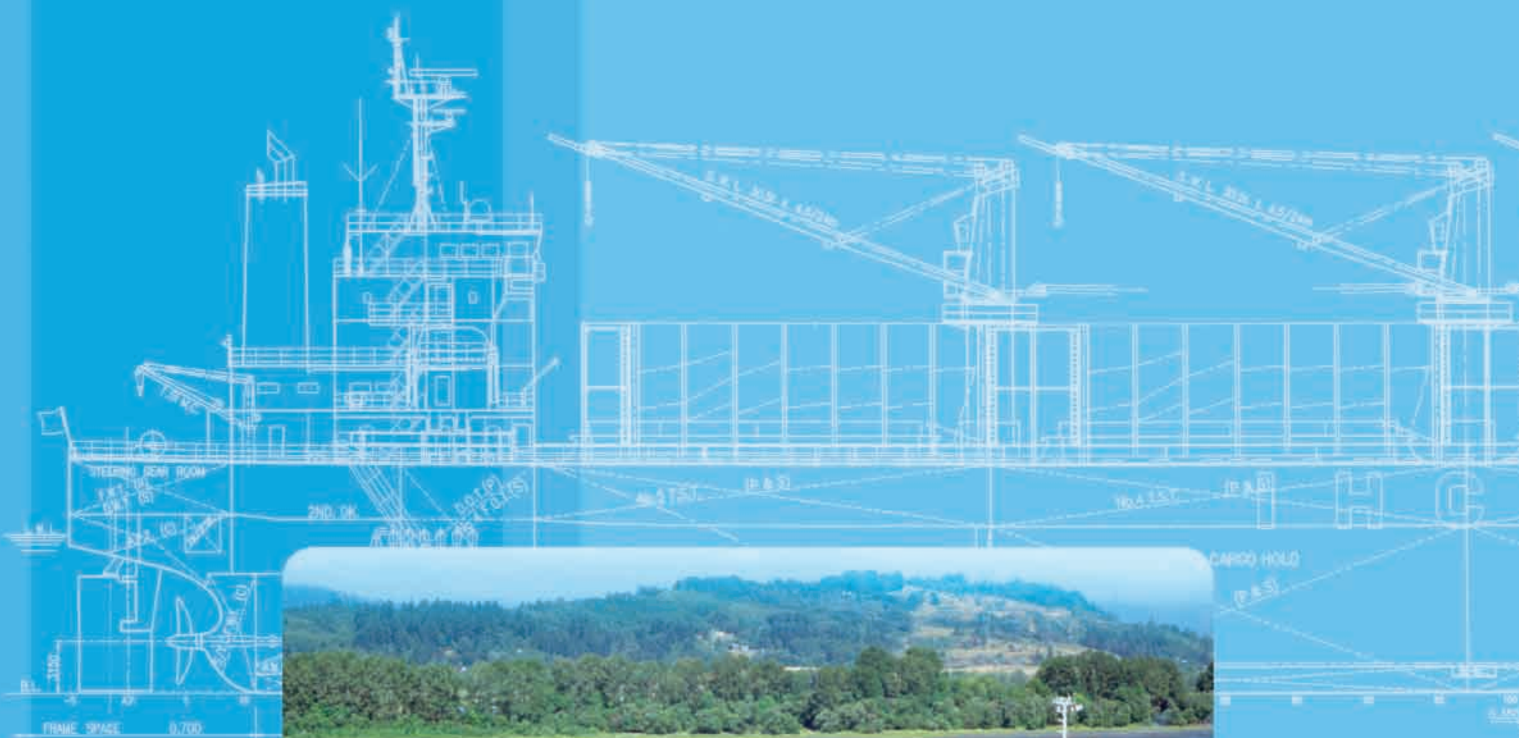
STEERING GEAR ROOM
2ND DK
CARGO HOLD
FRAME SPACE


I H C POOL

CONTENTS



FINANCIAL HIGHLIGHTS

	2004	2003
	US$'000	*US$'000*
Results		
Turnover	**234,266**	54,188
EBITDA[1]	**131,409**	35,397
Profit attributable to shareholders	**103,512**	22,686
Financial Position		
Total assets	**653,726**	212,702
Total net borrowings	**323,268**	137,719
Shareholders' funds	**232,636**	38,884
Per Share Data		
Basic earnings per share	**US9.59 cents**	US2.85 cents
Post-listing dividends per share[2]	**HK24.00 cents**	—
Post-listing dividends per share	***US3.08 cents***	—
Ratios		
Net borrowings to book value of fixed assets	**59.4%**	68.6%
Net borrowings to shareholders' equity	**139.0%**	354.2%
Interest coverage (EBITDA[1]/Interest expenses)	**15.2 times**	7.4 times

[1] *EBITDA is defined as earnings before interest and finance costs, tax, depreciation and amortisation*

[2] *Pre-Listing dividends per share are not presented as such information is not considered to be meaningful for the purpose of these accounts*

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors
Mr. Christopher R. Buttery *(Chairman)*
Mr. Mark M. Harris *(Group Chief Executive)*
Mr. Paul C. Over

Non-Executive Directors
Mr. Simon K.Y. Lee, MBE, JP *(Deputy Chairman)*
Mr. Brian P. Friedman
Mr. James J. Dowling

Independent Non-Executive Directors
Mr. Robert C. Nicholson
Mr. Patrick B. Paul
The Earl of Cromer

PRINCIPAL BOARD COMMITTEES

Audit Committee
Mr. Patrick B. Paul *(Chairman)*
Mr. Robert C. Nicholson
The Earl of Cromer

Remuneration and Nomination Committees
Mr. Robert C. Nicholson *(Chairman)*
Mr. Patrick B. Paul
The Earl of Cromer
Mr. Simon K.Y. Lee, MBE, JP
Mr. Brian P. Friedman

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SOLICITORS
Linklaters
Johnson Stokes & Master

COMPANY SECRETARY
Mr. Andrew T. Broomhead, *FCPA*
companysecretary@pacbasin.com

LISTING VENUE
The Stock Exchange of Hong Kong Limited
(the "Hong Kong Stock Exchange")

STOCK CODE
2343.HK

LISTING DATE
14 July 2004

TOTAL SHARES IN ISSUE
1,267,010,609

PUBLIC AND INVESTOR RELATIONS

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Overview

We are pleased to present a satisfactory first set of annual results after a very significant year for the Group. We completed a successful reorganisation and listing on the Hong Kong Stock Exchange in July 2004 (the "Listing") and the capital we raised allowed us to undertake a substantial fleet expansion. This, in turn, enabled us to enlarge the scale of our business operations to meet the increasing demand from our customers for the freight services we provide. The freight market for dry bulk shipping was very strong, with owners and operators earning favourable rates.

The combined effect of the reorganisation and Listing, the expanded fleet, our business strategy and the level of the freight market is that the Group's profits for the year ended 31 December 2004 increased to US$103.5 million from US$22.7 million in 2003 on turnover of US$234.3 million compared with US$54.2 million in 2003. Basic earnings per share rose to 9.59 US cents (74.80 HK cents) compared with 2.85 US cents (22.23 HK cents) in 2003. By the end of the year, we operated 41 vessels (an average of 28 vessels during the year), providing a total of just over 10,000 revenue days and achieving average daily revenue of almost US$17,900 per vessel, compared with 15 vessels providing 5,500 revenue days at an average rate of US$9,800 in 2003.

During the same period, our network of support offices was extended to improve our response to customers' requirements within their own time zones and provide greater operational support in our key cargo loading and discharging areas.

The number of Handysize revenue days for 2005 is now expected to be over 14,200, an increase of 43% before the planned further fleet expansion. With 59% of these revenue days already covered at an average rate of US$17,300 per day and a healthy freight market, we remain confident that we can expect another year of strong growth.

Dividend

The Group's policy is to pay out by way of interim and final dividends not less than 50% of profits available for distribution in each financial year. For

2004, dividend payments are based on the results for the period from 1 June to 31 December 2004, because all retained earnings up to 31 May 2004 were paid out to shareholders of the Company prior to the reorganisation of the Group and the Listing.

In view of the above policy, the Board has recommended a final dividend of HK$0.16 per share for the year ended 31 December 2004 to be paid on 6 May 2005 to the shareholders of the Company whose names appear on the register of members on 29 April 2005. When this proposed final dividend is aggregated with the mid-period interim dividend of HK$0.08 per share declared on 13 December 2004, the total payout of HK$0.24 per share represents 56% of the Group's profits for the seven months ended 31 December 2004. Our decision to recommend a total dividend above the 50% payout level is a reflection of the strength in the Group's performance, profits and cashflows, particularly in the final quarter of 2004, and our optimism given the strong start to the current year.

Market Review

There is no doubt that 2004 was an outstanding year for the industry as a whole, with the three principal sectors of shipping (container, tanker and dry bulk) each experiencing strong demand and constrained supply conditions, driving freight rates and vessel prices to historical highs. The dry bulk sector was in particular a beneficiary of economic growth and industrial expansion in Asian economies, especially in a number of the Group's main cargo delivery destinations, where the increase in consumption of primary raw materials created significant additional shipping requirements.

The demand for tonnage and the supply available to meet that demand were finely balanced and produced rates for Handysize vessels in excess of US$15,000 in both the Pacific and Atlantic for most of the year. Additionally, the dry bulk freight market experienced two sharp rate spikes in the first and fourth quarters. These spikes were characteristic of market conditions where supply is unable to cope with incremental demand and it was, perhaps, unsurprising that they occurred during the traditionally busy seasons associated with southern and northern hemisphere grain shipments, when the already tight market conditions were exacerbated by China's burgeoning appetite for basic raw materials, iron ore in particular.

On the newbuilding vessel supply side, capacity constraints appear to limit the number of deliveries for the foreseeable future, with the dry bulk sector having only 21% of current fleet capacity on order for delivery over the next two to three years. Shipyards are already virtually full for this period and, with only moderate assumptions about world and regional economic growth, this is unlikely to create any significant over-supply, the traditional cause of a downturn in shipping markets. For our sector (25,000–35,000 dwt), the order book represents only 10% of current fleet capacity. This means that, even if the rate of scrapping remains low, the world Handysize fleet (which already has an average age over 17 years and where 29% of the fleet is over 25 years old) is likely to grow older and less efficient. It is worth noting, however, that 2004 was the first year since 1997 that saw a net growth in the Handysize fleet (albeit by only 2.5%) as it became economically viable for owners of very old ships to postpone scrapping despite incurring the considerably higher operating costs and off-hire associated with such vessels.

These market conditions have pushed vessel values higher. Prices for a five year old Handysize vessel and for a newbuilding vessel are both approximately 25–35% more expensive now than they were a year ago. For those companies with sizeable (and especially modern) fleets, this is obviously welcome news; except that the prospects of buying additional vessels in the market have been limited. We have successfully utilised our long-term relationships, particularly in Japan, to find opportunities to add to our fleet expansion since last summer, despite these challenging market conditions.

Business Review

Through our International Handybulk Carriers ("IHC") pool we have established a market position and a reputation in our sector as the leading supplier of freight services provided directly to the major commodity companies predominantly in the Pacific. These services are backed by a fleet of modern vessels, a comprehensive network of offices around the region and a team of dedicated and experienced industry professionals. During 2004, approximately 75% of the cargo shipped by our fleet was loaded and discharged in the Pacific with the balance predominantly in the Atlantic and Mediterranean.

We specialise in shipping a broad range of bulk commodities, with forestry products, cement, fertilisers, steel and grain representing 70% of 10.7 million tonnes of cargoes carried by IHC pool vessels in 2004 (2003: 72% of 7.6 million tonnes). This is performed with the largest fleet of modern Handysize ships in the Pacific. At 31 December 2004, we had a fleet of 45 vessels, with an average age below five years, comprising 34 owned vessels (including one Handymax), seven vessels on long-term charters and four managed vessels. We also had on order six newbuilding vessels for delivery in 2005 and 2006 (five owned and one chartered). Further developments to the fleet since year-end are described in Fleet Developments below.

Our strategy of providing direct services to major commodity companies means we must be confident of our ability to load at ports where the regulatory environment is the most challenging. Modern ships and experienced local back-up are essential ingredients to the success of such an operation. These same ingredients are also essential at our main delivery destinations of Japan, China, Australia and South Korea. At both load and discharge ports, related infrastructure restrictions or natural geographical features frequently dictate that vessels not larger than Handysize must be used.

A modern, standardised fleet is also important to the securing of back haul cargoes which, when combined with front haul voyages, can be used to increase vessel utilisation and therefore improve the overall rates we earn. Through the effective combination of front haul and back haul voyages, we have successfully reduced our ballast time to achieve a high level of asset utilisation with our ships carrying cargo most of the time. Our success in securing back haul cargoes has resulted in Australia (our largest loading area) becoming our third largest discharge destination.

In tandem with our fleet expansion, we have in the last year opened new offices in Melbourne, Shanghai and Vancouver to provide local support for the main operational centres in Hong Kong and London, which have also expanded. Our shore-based staff now number some 225 employees, up from 175 on 30 June 2004.

Linking front haul and back haul voyages reduces the amount of time spent ballasting and we are continuously building a book of long-term cargo contracts to provide us with a reasonable level of certainty over, and stability in, our future revenue streams. As at 25 February 2005 (being the latest practicable date prior to this report), cargo and charter contract cover had been established for 59% of 2005's 14,200 Handysize vessel revenue days at an average rate of US$17,300 per day. This number of vessel revenue days is before the planned additional fleet expansion. The cover rate reflects the averaging of the basic rates in all existing front haul and back haul cargo contracts, including those that extend into 2006 and 2007, plus spot fixtures already booked in the first two months' trading activities. It does not include any projected levels of future spot market fixtures or the benefits of enhanced vessel utilisation to be achieved when contract cargoes are combined, or other spot market fixtures are used, to reduce the ballast content in these rates.

Fleet Developments

Since the end of 2004, we have taken delivery of two further vessels bringing our fleet today to 47 vessels (Handysize: 34 owned, seven on long-term charters and four managed; Handymax: two owned) with an average age of five years:

- On 6 January 2005, we took delivery of the Xiamen Sky, our second 53,600 dwt Handymax newbuilding, which immediately commenced a long-term charter to a major Chinese shipping group;
- On 11 January 2005, we took delivery of the Citrus Island (now renamed Pitt Island), a 28,600 dwt vessel built in 1997, which we had agreed to purchase in late 2004;

Additionally, we have entered into the following transactions to develop and improve our fleet configuration:

- We have agreed to purchase a 28,600 dwt vessel built in 1997 at Imabari, which is to be renamed Castle Peak and is expected to be delivered during the second quarter of this year; and
- We have entered into agreements to sell four vessels (two Handysize, one Handysize newbuilding and one Handymax) and charter them back at attractively low rates, thereby retaining the operational control and profitability of these vessels. The combined effect of these sales is to eliminate US$20.4 million of capital commitments on newbuilding vessel deliveries and, after repayment of debt of US$34.6 million, release some US$18.9 million of capital that can be redeployed to support our on-going fleet expansion programme. By chartering the vessels back for long periods at rates that are broadly similar to our cash cost of owning these vessels, we maintain our scale and profitability whilst benefiting from a degree of protection against operational and market risks of ownership. Our resulting vessel operating lease obligations will be US$22.9 million in 2005, US$68.9 million for the four years 2006 to 2009 and US$29.4 million thereafter. The vessels involved are:

  (i) the Priory Bay, the oldest and smallest of the vessels in our owned fleet. We have chartered her back for two years, with an option for us to extend for a third year. The vessel is expected to deliver to her new owners in March 2005;

  (ii) the Mount Fisher, a 2002-built 28,500 dwt vessel. We have chartered her back for eight years, with options for us to extend for two further periods of one year each. We also hold an option to repurchase the vessel at any time after three years. Delivery is expected to occur in April 2005;

  (iii) Imabari hull number H507, a 28,000 dwt vessel due for delivery in November 2006. She will be chartered back for five years with options for us to extend the charter for two further years with a repurchase option from the end of the third year; and

  (iv) the Xiamen Sea, a 2004-built 53,600 dwt Handymax vessel. She will be chartered back by us on terms that match our outward long-term charter, thereby releasing the capital tied up for re-investment in more profitable vessels. We hold a repurchase option that can be exercised at the end of five years.

As a result of these transactions and assuming that the vessels deliver to their new owners as expected, our fleet will expand to 48 vessels (Handysize: 33 owned, nine on long-term charters and four managed; Handymax: one owned and one on long-term charter). Importantly our share of total IHC pool activity will increase further to over 90% and our 2005 Handysize revenue days will increase to 14,200, with 59% cover at US$17,300 per day. The two Handymaxes will provide a further 700 revenue days (2004: 100) which are 100% covered at US$8,450 per day. We

will still have five newbuilding vessels on order, with three to come into the owned fleet and two into the long-term chartered fleet as well as the purchase options that we hold over seven of the vessels in the chartered fleet.

Outlook and Prospects

2005 has started positively, reflecting the continuation of the very strong market for dry bulk vessels. Handysize market rates have remained above US$20,000 per day, apart from a seasonal dip over Chinese New Year from which rates have since rebounded, and the demand outlook for bulk commodities and economic indicators in our main delivery destinations remain encouraging.

With shipyard orderbooks virtually full for the next two to three years, we have reason to be confident that there will be only modest newbuilding deliveries for our sector and manageable deliveries for dry bulk as a whole. The supply picture cannot deteriorate in the short term. Until we see a fundamental change, we believe that rates will continue to be healthy and supported at a higher base than has been the case historically. Additionally, until the short-term tightness between demand and supply is alleviated, the conditions for further rate spikes at times of peak demand remain in place.

Our strategy continues to be to focus on providing direct freight services to the world's leading commodity companies. The growth in demand from our customers and the cargo opportunities available to us clearly support continued development of our business in this niche sector. Meeting that growth through further capacity expansion will depend mostly on our ability to source additional newbuilding vessels and modern second hand tonnage which we believe we are better placed to do than most other Handysize owners.

As expected, our customer relationships with leading international commodity groups, our exceptionally modern fleet and the increasing visibility of our presence in Shanghai (and China in general) are also giving us access to some interesting and potentially significant opportunities for long-term inbound and outward cargo contracts, using vessels other than Handysize. These include iron ore, steel, coal, soya bean and grain shipments and represent an exciting development for the Group which we hope will develop into an increasingly important part of our total activity.

In conclusion, with positive demand and supply fundamentals for the market, with our 2004 fleet expansion driving growth into 2005 and with good contract cover at attractive rates for this year and into 2006, we remain optimistic about the outlook for the dry bulk shipping market generally and for the prospects for our business in particular.

Finally, we look forward to the arrival of Mr. Richard Hext, who will be joining the management and the board as Deputy Chairman in early April, responsible for all of our commercial and operating activities. His experience in our industry and his depth of skills in all aspects of our business including long-term relationships with our customers are expected to bring a new dimension to the overall running of the Group and to its future success. Upon Mr. Hext's arrival, Mr. Simon Lee, whilst remaining as a non-executive director, will step down as Deputy Chairman. We wish to express our sincere thanks to him for the support, experience and counsel that he has provided to us in the past and we look forward to the benefits of his continuing involvement with, and service to, the Board.

Christopher R. Buttery
Chairman

Hong Kong, 1 March 2005

Pacific Basin Shipping Limited

Annual Report 2004




DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Christopher R. Buttery
age 54, Chairman

Mr. Buttery has over 30 years of experience in the shipping industry. He founded the original Pacific Basin business in 1987 and was Chairman and Chief Executive when that business was listed on Nasdaq in New York from 1994 to 1996. The business was acquired by a third party in September 1996 and, after one year as an advisor to the acquiror, he left the group and was instrumental in re-establishing the current Pacific Basin in 1998. Mr. Buttery became Deputy Chairman of the Group in 2001 and Chairman in March 2004. He has also served as a director of Jardine Fleming Japanese Smaller Companies Limited (listed on The London Stock Exchange).

Mark M. Harris
age 44, Group Chief Executive

Mr. Harris has worked in Asia for over 15 years. He joined Pacific Basin in 1994 serving as Chief Financial Officer until the end of 1997. He was finance director of Celsis International plc, a UK biotech company listed on The London Stock Exchange, from 1997 to 1999 and rejoined the current Pacific Basin in 2000 as Managing Director of the Group's headquarters in Hong Kong, becoming Group Chief Executive in 2002. He is a Chartered Director of the Institute of Directors in the UK, an Associate of the Institute of Chartered Accountants of England & Wales and a director of The West of England Shipowners Association.

Paul C. Over
age 48, Managing Director, UK

Mr. Over has over 25 years of experience in the shipping industry. He joined the original Pacific Basin business as a director at its inception in 1987. He was appointed Chief Operating Officer in 1991, a position he held until September 1996 when the company was acquired by an independent third party. He remained employed by that party until March 1998 and took up his current position and directorship with Pacific Basin in July of that year. He is managing director of Pacific Basin's IHC Pool and is responsible for executing the Group's tonnage procurement and disposal programmes. He is a director of The London Steam Ship Owners' Mutual Insurance Association.

Mr. Richard M. Hext, age 47, will be joining Pacific Basin's senior management team and Board as Deputy Chairman in early April 2005. He has been in shipping for over 25 years, most recently serving as Chief Executive Officer of the marine services division of the world's largest ship management group. Mr. Hext served with John Swire & Sons Limited from 1978 to 2000, during which time he held a number of senior management positions within the Swire group including in Hong Kong where he served as managing director of The China Navigation Company Limited and as a director of John Swire & Sons (HK) Limited which controls a number of Hong Kong companies including Hong Kong-listed Swire Pacific Limited.

NON-EXECUTIVE DIRECTORS

Simon K.Y. Lee, MBE, JP
age 77, Deputy Chairman

Mr. Lee is Chairman of the Sun Hing Group of Companies, which was established in 1945 and is involved in shipping, insurance, warehousing and transportation in Hong Kong and China. He has served extensively on marine-related government committees, including a term as Chairman of the Shipping Committee of the Hong Kong General Chamber, and has led several goodwill missions to Japan and South Korea. He has been a director of Pacific Basin since 1998.

Brian P. Friedman
age 49

Mr. Friedman has been president of Jefferies Capital Partners and its affiliated entities since 1997. He also serves as Chairman of the executive committee of Jefferies & Company, Inc. Mr. Friedman serves as Chairman of Telex Communications, Inc., as a director of the general partner of New York-listed K-Sea Transportation Partners L.P. and of New York-listed Iowa Telecommunications, Inc. and as a director of various private companies in which Jefferies Capital Partners or its affiliates have an interest.

James J. Dowling
age 59

Mr. Dowling has been a senior advisor of Jefferies Capital Partners, one of the Company's major shareholders, since January 2002. Prior to this he was a senior transportation industry securities research analyst, portfolio manager and investment banker with Furman Selz LLC and its successors for over 18 years. Mr. Dowling is Chairman of the general partner of New York-listed K-Sea Transportation Partners L.P. and is also a director of various private companies in which Jefferies Capital Partners or its affiliates have an interest.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Robert C. Nicholson
age 49

Mr. Nicholson qualified as a solicitor in England and Wales in 1980 and in Hong Kong in 1982 and has broad experience in corporate finance and cross-border transactions. He was the senior advisor to the board of directors of PCCW Limited between 2001 and 2003. He became an executive director of First Pacific Company Limited in 2003 and has been an independent non-executive director of QPL International Holdings Limited since 1994. Both companies are listed on the Main Board of the Hong Kong Stock Exchange.

Patrick B. Paul
age 57

Mr. Paul is a qualified accountant. In a 33 year career with PricewaterhouseCooper (PwC), he held a number of senior management positions in Hong Kong, including Chairman and Senior Partner of the firm for seven years. Since retiring from PwC in 2002, he has taken up a number of independent non-executive directorships, including with Johnson Electric Holdings Limited, The Hongkong and Shanghai Hotels, Limited and Kingsway International Holdings Limited. He is also a member of the Managing Board of Kowloon-Canton Railway Corporation.

The Earl of Cromer
age 58

The Earl of Cromer has spent over 35 years working in and advising on managing businesses and investments in China and other parts of Asia and holds positions on the boards of various China and Asia-related investment trusts including the Chairmanship of Jardine Fleming China Regional Fund Limited and LG China Fund Limited. In 1994 he established Cromer Associates Limited advising European and American companies seeking to invest in Asia as well as Asian companies looking to invest in Europe.

SENIOR MANAGEMENT

Andrew T. Broomhead
age 43, Chief Financial Officer and Company Secretary

Mr. Broomhead worked for over 20 years with an international accounting firm, financial institutions and an Asian conglomerate in the UK, America, Singapore, Indonesia and Hong Kong before joining Pacific Basin in April 2003 as the Group's Chief Financial Officer and Company Secretary. He is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.

D. Jeffery Phillips
age 52, Chief Operating Officer

Mr. Phillips has over 35 years of experience in the shipping industry. After six years at sea, he gained broad experience ashore in marine operations and shipbroking before rising to senior management positions (responsible for business development, marketing, newbuilding construction as well as technical and commercial management) with well-known ship owning and operating companies such as Canadian Pacific Ships and Ahrenkiel Shipping. He joined Pacific Basin in February 2003 and is now Chief Operating Officer.

Ben Lee
age 50, President, Pacific Basin Shipping Consulting (Shanghai) Ltd.

For over 25 years, Mr. Lee worked for a major Chinese state-owned international trading company engaged in the import and export of machinery and equipment used for shipbuilding, shipping and offshore oil installations. He was appointed Chairman and president of that company in 2000. Mr. Lee joined Pacific Basin in September 2004 as President of Pacific Basin Shipping Consulting (Shanghai) Ltd. where he has responsibility for all of the Group's China-related activities.

Jan Rindbo
age 30, General Manager, Chartering and IHC Pool

In 1994, Mr. Rindbo joined a major Danish ship owning and operating group where he specialised in Handysize chartering activities and pool operations and was promoted to the position of Chartering Manager. He served in Denmark, Hong Kong and USA before returning to Hong Kong to manage the activities of the IHC pool established by Pacific Basin in 2001 and is responsible for the chartering of vessels operated through the IHC pool.




SENIOR MANAGEMENT

William Y.S. Williams
age 63, General Manager, Commercial Operations

Mr. Williams joined a US-based shipping company in 1965 where he rose to the position of operations manager before taking up the same position at Continental Grain Company where he served for 20 years. In 1999 he managed operations of a US-based company until its fleet was acquired and placed under Pacific Basin's commercial management in 2002. He then joined Pacific Basin as General Manager Operations UK before taking up his current post in Hong Kong in November 2003.

Chanakya Kocherla
age 47, General Manager, Technical Operations

After four years at sea, Mr. Kocherla joined the IndoChina Steam Navigation Company ("IndoChina") (part of the Jardine Group) in Hong Kong where he served for 20 years until IndoChina was brought under the Pacific Basin banner in 2001. During this time, he built up technical management experience in a variety of ship types including log/bulk carriers, multipurpose and container ships as well as oil and chemical tankers. He was appointed General Manager of Technical Operations in January 2004. He is a member of the Hong Kong technical committee for Class NK.

Morten H. Ingebrigtsen
age 43, General Manager, Sale and Purchase

Mr. Ingebrigtsen started his career with a major Norwegian shipping group where he gained experience in the sale and purchase of ships, new project analysis (for bulk carrier and tanker projects) and investor liaison. He joined Pacific Basin in Hong Kong in 1989 to manage the sale and purchase activities of the business. He re-joined the current Pacific Basin in 1999 and continues to be in charge of the Group's sale and purchase activities.

John W. Wright
age 59, General Manager, Chartering, UK

Following a five-year commission with the British Royal Navy, Mr. Wright joined a company on the Baltic Exchange as a shipbroker in 1970 and has since built up over 30 years of chartering and management experience with well-known international shipbrokers and ship operators in the UK, USA and Canada. He was chartering manager for J. Lauritzen in Montreal for seven years, a senior partner at Gibsons shipbrokers where he served for a total of eight years, and chartering manager of Dominion Bulk for five years until he joined Pacific Basin in January 2003 as General Manager in charge of all chartering activities of the Group's London office. He is a member of the Institute of Chartered Shipbrokers.

SENIOR MANAGEMENT

Suresh Prabhakar
age 48, General Manager, Technical Operations and Crewing, China

Mr. Prabhakar is a Master Mariner with 18 years of seagoing experience. From 1992 onwards, he worked in Hong Kong with IndoChina eventually overseeing worldwide ship management operations of the company until IndoChina was brought under the Pacific Basin banner in 2001. His most recent focus has been on China-related projects and PRC crewing activities. He is now General Manager of Technical Operations and Crewing in Pacific Basin's rapidly expanding Shanghai office. He is a Fellow of the Institute of Chartered Shipbrokers and a Member of the Nautical Institute.

Richard Rawlinson
age 59, General Manager, Newbuildings

Mr. Rawlinson served at sea for six years and was promoted to Chief Engineer before taking up a shore-based position as Engineer Superintendent with IndoChina in Hong Kong. He was promoted to Technical Manager in 1986 and continued in that position until January 2004 when he assumed technical responsibility for all newbuilding projects for the Group. He is a member of the Hong Kong Technical Committees of the Lloyds Register of Shipping, Det Norske Veritas and the Hong Kong Shipowners Association.

Danish Sultan
age 44, Managing Director, PacMarine Services

Mr. Sultan started his career at sea rising to the rank of Master before joining PacMarine in 1995. He led the vetting inspection teams in both Singapore and Hong Kong before being promoted to General Manager of PacMarine Singapore in 2001. He was promoted to Managing Director of the PacMarine Services Group in 2004. He is a member of the Nautical Institute and of the Chartered Institute of Logistics and Transport.

Ikram Ahmed
age 63, Fleet Manager

After over 15 years of service at sea where he rose to the rank of Chief Engineer, Mr. Ahmed joined a Hong Kong-based technical management group in 1979 and was promoted to the position of Fleet Manager. In 2003 he joined Pacific Basin as Fleet Manager and, in January 2005, was transferred to Pacific Basin Shipping and Consulting (Shanghai) Limited to oversee the technical management of vessels from the Group's Shanghai office.

Introduction

The Pacific Basin name has been synonymous with the international seaborne transportation of dry bulk commodities in Handysize bulk carriers since its original formation in 1987. The company that bears the Pacific Basin name today was established in 1998 and has continued to focus on the Handysize sector through its fleet of modern vessels of similar design in the 25,000–35,000 dwt range. The Group seeks to operate that fleet itself in a manner that provides the leading commodities companies of the Asia Pacific region with the most direct, reliable and flexible freight services whilst also increasing the Group's operational efficiency.

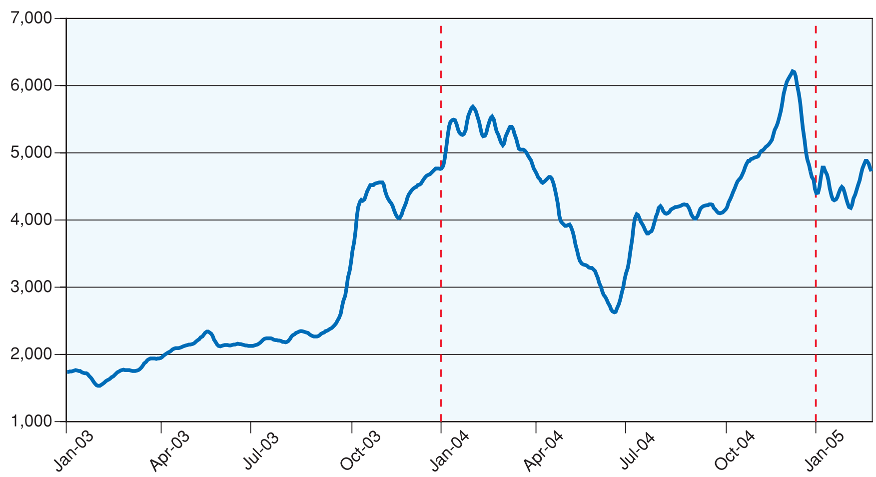
2004 marked a new chapter in Pacific Basin's history with its initial public offering ("IPO") on the main board of the Hong Kong Stock Exchange which was successfully completed in July. The IPO generated net proceeds to the Company of US$72 million, allowing further significant expansion of the fleet to meet the increasing demand for the freight services provided and in time to benefit from what is now proving to be a sustained and very robust dry bulk shipping market.

Market Review

The shipping industry as a whole experienced one of its strongest years ever in 2004. For the dry bulk sector in particular, this was in a large part driven by renewed economic growth and industrial expansion in Asian economies, in particular China where imports of primary dry bulk raw materials (iron ore and coal) grew by over 30%.

The dry bulk freight market started 2004 by continuing the rally that had commenced in the last quarter of the previous year, with the Baltic Dry Index ("BDI"), which tracks spot freight rates across larger dry bulk carriers, peaking at over 5,600 index points in February 2004. Throughout this period the demand for tonnage and the supply available to meet that demand were finely balanced. Demand from China for basic raw materials, especially iron ore, pushed rates higher and created significant port congestion in the iron ore and coal loading areas, particularly in Australia and Brazil. In the second quarter, the impact of China's economic slow-down measures reduced imports and decreased port congestion only slightly. Rates moderated as a result (the BDI dropped to 2,600) but this level was still above previous cyclical peaks since freight indices started in 1985, and continued to provide owners with favourable earnings.

Baltic Dry Index



(source: Bloomberg)

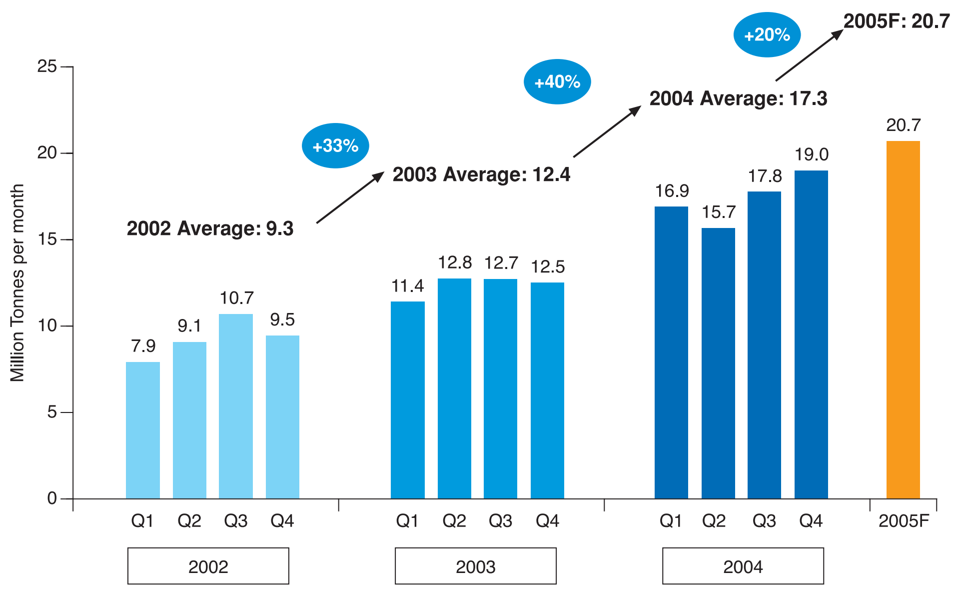
The moderation of rates was short-lived as China's pace of imports picked up again, creating a strong rally in the traditionally quieter summer months that was sustained well into the fourth quarter. With Chinese iron ore imports rising to a peak level of over 20 million tonnes in December and port congestion growing, the market was driven higher as the year end approached. The BDI posted 48 consecutive daily increases to reach a new record high of 6,208 in early December.

Handysize

A similar pattern of strong and growing demand set against a tight and highly utilised supply base also provided very positive market conditions and rates in the Handysize sector. Spot rates remained above US$15,000 per day for most of the year and rates over US$20,000 were achievable for extended periods in the first and fourth quarters as all dry bulk sectors experienced demand-driven spikes in freight rates. These spikes occurred in February/March and again in November/December when the busy seasons traditionally associated with southern and northern hemisphere grain shipments naturally tightened market conditions. These conditions were exacerbated by China's burgeoning appetite for basic raw materials (iron ore in particular), a situation then worsened by port congestion that reduced the effective short-term supply base.

On the vessel supply side, newbuilding capacity constraints appear to limit the number of new ship deliveries for the foreseeable future, with only approximately 21% of current dry bulk fleet capacity on order for delivery over the next two to three years. With shipyards already virtually full for this period, and with only moderate assumptions about world and regional economic growth, this is unlikely to create any significant over-supply, the traditional cause of a downturn in shipping markets. For Pacific Basin's sector (25,000–35,000 dwt), the order book represents only 10% of current fleet capacity. This means that, even if the rate of scrapping remains low, the world Handysize fleet (which already has an average age over 17 years and where 29% of the fleet is over 25 years old) is likely to grow older and less efficient. It is worth noting, however, that 2004 was the first year since 1997 that saw a net growth in the Handysize fleet (albeit by only 2.5%) as it became economically viable for owners of very old tonnage to postpone scrapping and to incur the considerably higher operating costs and off-hire associated with such vessels.

China's Iron Ore Imports



(source: Bloomberg/Clarkson Research Studies)

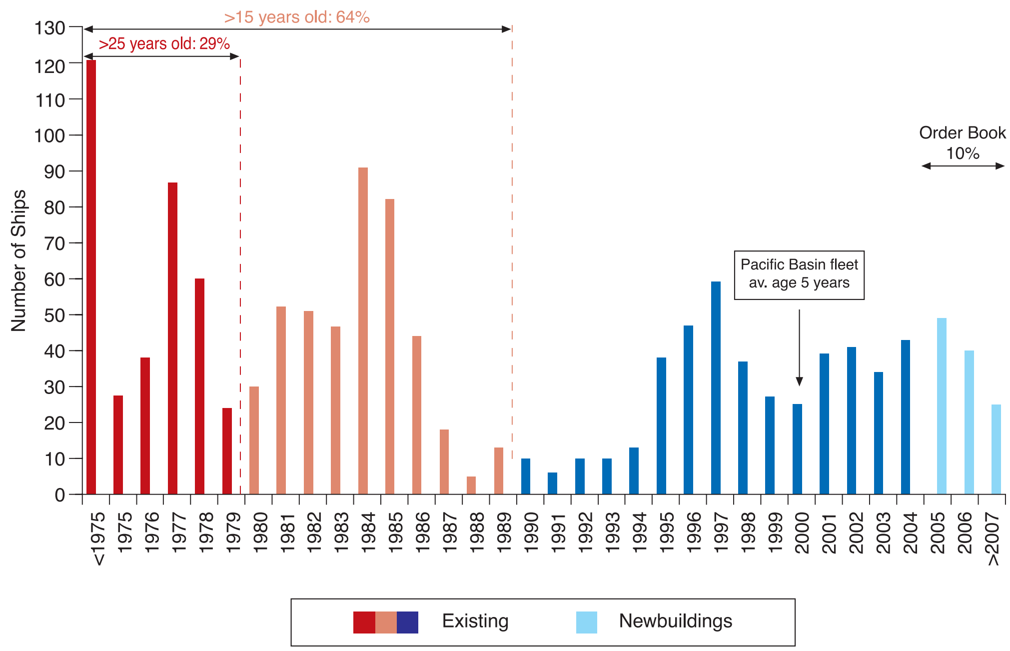
These market conditions have pushed vessel values higher. Prices for a five year old Handysize vessel and for a newbuilding vessel are both approximately 25–35% more expensive now than they were a year ago. For those companies with sizeable (and especially modern) fleets, this is obviously welcome news; except that the prospects of buying additional vessels in the market have been limited. Pacific Basin has successfully utilised its long-term relationships, particularly in Japan, to find opportunities to add to its fleet expansion since last summer, despite these challenging market conditions.

Fleet Expansion and Development

As a result of the major expansion effected during 2004 and further additions so far this year, the Group continues to operate one of the largest fleets of modern Handysize vessels in the world. At the start of 2004, Pacific Basin operated a fleet of 18 vessels with an average age of four years, comprising 14 owned vessels and four vessels on long-term charters. The reorganisation that came into effect on 1 April 2004 in preparation for the Listing of the Group and the delivery of vessels under construction increased this to 26 vessels as at 30 April 2004. An additional four vessels and two newbuilding vessels were purchased conditional upon the completion of the Listing.

Despite the tight market conditions that characterised the sale and purchase market for most of the year, the proceeds from the IPO were successfully deployed with the purchase of another eight vessels from the secondhand market (of which seven delivered into the fleet before the year end), making Pacific Basin one of the most active buyers of modern Handysize tonnage during the year. This was achieved by making best use of the Group's long-term relationships and contacts in the industry to find opportunities not available to the market generally. These purchases combined with deliveries of a further three newbuildings took the Handysize fleet at year end to 40 vessels with an average age still below five years, comprising 33 owned and seven chartered vessels, with a further five newbuilding vessels under construction for delivery between June 2005 and November 2006. In addition, the Group owned one Handymax vessel, and had a further four Handysize vessels under management.

25,000–35,000 dwt Bulk Carrier Fleet Age Profile



(source: Clarkson Research Studies/Pacific Basin)

In September 2004 Pacific Basin took delivery of its first 53,600 dwt Handymax vessel which immediately commenced a long-term charter to a major Chinese shipping group (as described below, an agreement has since been entered into to sell this ship and to charter her back). The Group took delivery of a sister vessel, also on charter to the same Chinese charterer, in early January 2005, as well as a 28,600 dwt vessel built in 1997, which the Group had agreed to purchase in late 2004.

These deliveries bring the combined fleet today to 47 vessels with an average age of five years (Handysize: 34 owned, seven on long-term charters and four managed; Handymax: two owned).

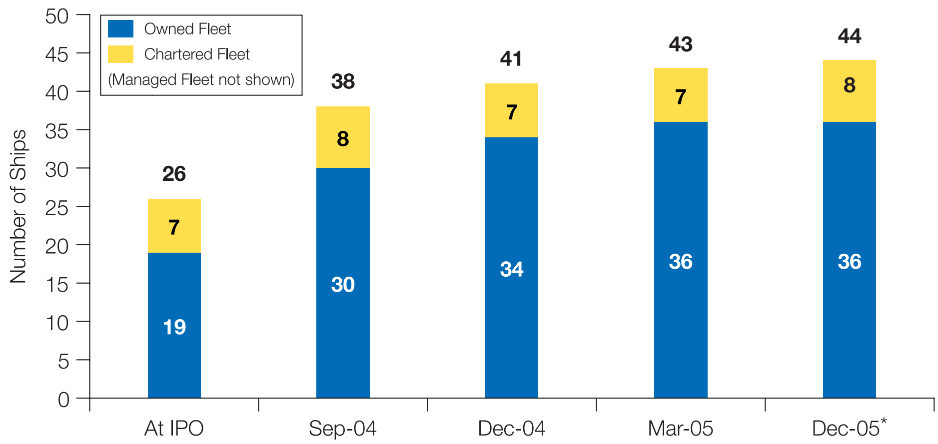
Additionally, since the end of 2004, the following transactions were entered into to develop and improve the Group's fleet configuration:

- The purchase of a 28,600 dwt vessel built in 1997, which is expected to be delivered during the second quarter of this year; and
- The sale of four vessels (two Handysize, one Handysize newbuilding and one Handymax) to be chartered back at attractively low rates, thereby retaining the operational control and profitability of these vessels. The combined effect of these sales is to eliminate US$20.4 million of capital commitments on newbuilding vessel deliveries and, after repayment of debt of US$34.6 million, release some US$18.9 million of capital that can be redeployed to support the Group's on-going fleet expansion programme. By chartering the vessels back for long periods at rates that are broadly similar to its cash cost of owning them, the Group maintains its scale and profitability. The resulting vessel operating lease obligations will be US$22.9 million in 2005, US$68.9 million for the four years 2006 to 2009 and US$29.4 million thereafter.

Chartering and Cargo Operations

Pacific Basin continues to specialise in the transportation of a broad range of bulk commodities, with forestry products, cement, fertilisers, grain and steel remaining the most important. The Group's IHC pool has now established a market position and a reputation as the leading supplier in the Handysize sector of industrial freight services and supply chain management provided directly to the major commodity companies predominantly in the Pacific. This service is supported by a fleet of modern Handysize vessels, a comprehensive network of offices around the region and a team of dedicated and experienced industry professionals.

Pacific Basin Fleet Development

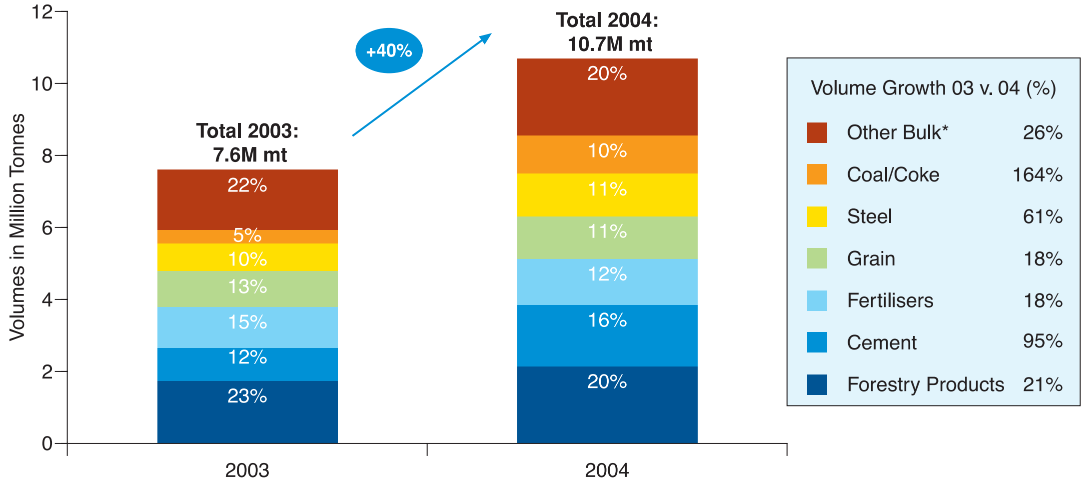


* *assumes vessels and newbuilding vessels are delivered as have been contractually committed but does not include potential additional fleet expansion*

BUSINESS REVIEW

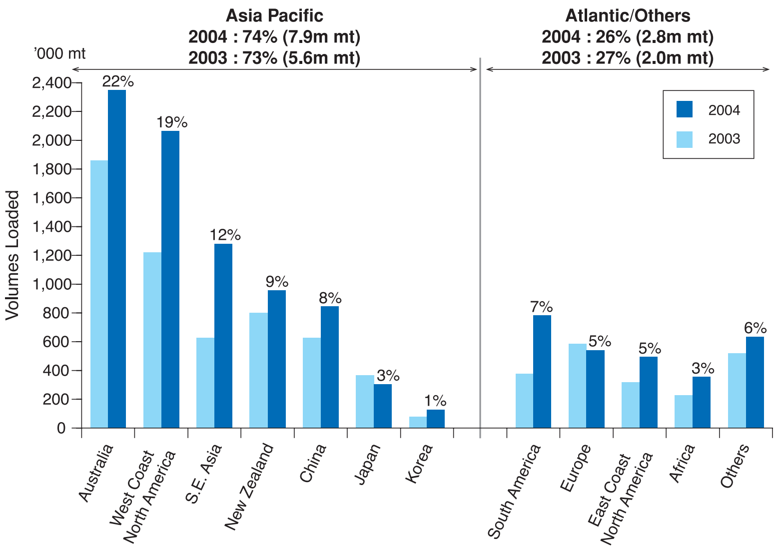
In 2004, IHC pool ships carried 10.7 million tonnes of cargo, an increase of 40% over the 7.6 million tonnes carried in 2003. Importantly, however, the Group's share of pool activity increased from approximately 60% in early 2004 to over 90% at the year end as the number and proportion of Pacific Basin owned and chartered ships entered into the pool expanded. Volumes of all commodities showed good increases with cement, steel, scrap and petcoke shipments particularly strong. These increases reflect stronger regional demand, both for imports and exports, particularly from China and the USA. The increase in the number of cement and steel cargoes carried into the USA was driven by strong domestic property construction, combined with an increase in IHC's share of inbound cement contracts. Growth in demand for the transportation of scrap and petcoke cargoes (used in the smelting process for steel production) has in part been driven by Chinese demand for steel products.

IHC Cargo Volumes



* *includes minerals, concentrates, agricultural products and other bulk products*

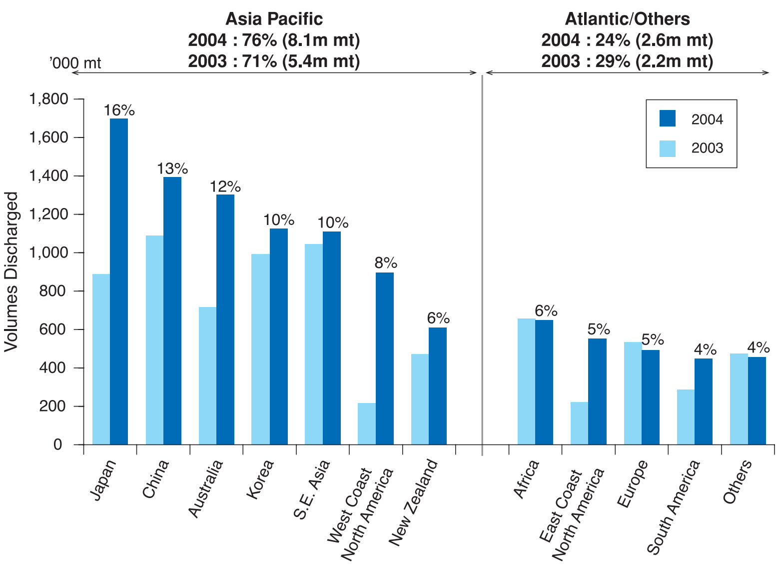
Major Load Areas



Cargoes for the key front haul trades are primarily loaded in Australia, New Zealand, the US west coast and Canada. These areas continue to be the most challenging for shipowners given the very high level of port state regulation, safety, environmental and other standards that are imposed and reinforce the need for the Group to have access to a fleet of modern, well-maintained vessels with experienced crew and strong shore-based local support. Whilst Australia continues to represent the Group's single largest loading area, volumes out of the west coast of North America showed particularly good growth driven primarily by exports of scrap steel, petcoke and fertilisers.

These front haul cargoes are delivered mainly to ports in Japan, China and South Korea. Whilst overall IHC cargo volumes increased by 40% over the year, volumes of cargo delivered into Japan almost doubled to 1.7 million tonnes, as a result of the Group's efforts to develop more cargo opportunities in Japan and bolstered in part by increased cargoes of coal during the country's nuclear power shut-down. China continues to be an important destination for the Group but accounts for less than one seventh of total cargo deliveries and therefore provides a significant growth opportunity going forward.

Major Discharge Areas



A key part of the Group's operating strategy is to secure back haul cargoes wherever these can be combined with front haul voyages on a profitable basis. Typical back haul cargoes in 2004 were cement, steel and fertilisers.

These voyages reposition vessels back in the prime front haul loading areas, thereby reducing the number of days in ballast, increasing overall asset utilisation and improving revenues as a result. Through the effective combination of front haul and back haul voyages, the Group's ships carry cargo most of the time. Successful triangulation of voyages, whilst maintaining acceptable levels of punctuality and and customer service, can only be achieved with a large standardised fleet of modern vessels to ensure a high level of operational and scheduling flexibility.

Reflecting this operating policy, the amount of cargo lifted in South East Asia doubled to 1.3 million tonnes, making it the third largest loading area during the year after Australia and the west coast of North America. At the discharge end, these back haul cargoes resulted in the delivery of some 1.3 million tonnes of cargo to Australia, behind only the deliveries to Japan and China. Deliveries to the west coast of North America tripled due to an increase in IHC's market share of the cement trade which lifted volumes to 0.9 million tonnes.

Although the Group's primary focus is on cargo movements in the Pacific, Atlantic-based activities also showed solid growth, with almost 2.8 million tonnes of cargo shipped, up from 2.0 million tonnes in 2003. In addition to being an important trading area in its own right, the Atlantic operations provide the Group with greater customer coverage and operational flexibility.

Through the IHC pool, the Group aims to deliver a high quality service tailored to the needs of its customers who rank amongst the leading commodities companies in the region. With a broad range of cargoes moved from, and delivered to, a wide variety of ports throughout the Pacific and Atlantic basins, the IHC pool has been successful in building a diversified customer list that comprises the leading commodities companies operating in these areas. The Group provided freight services to over 100 different companies in 2004, with the largest single customer accounting for only 7.1% of total Group revenues and the top ten accounting for only 36.9% of revenues.

The Group's commitment to customer service, flexibility and responsiveness is believed to have been a key factor contributing towards the expansion and strengthening of the Group's business relationship with the majority of these key customers in 2004.

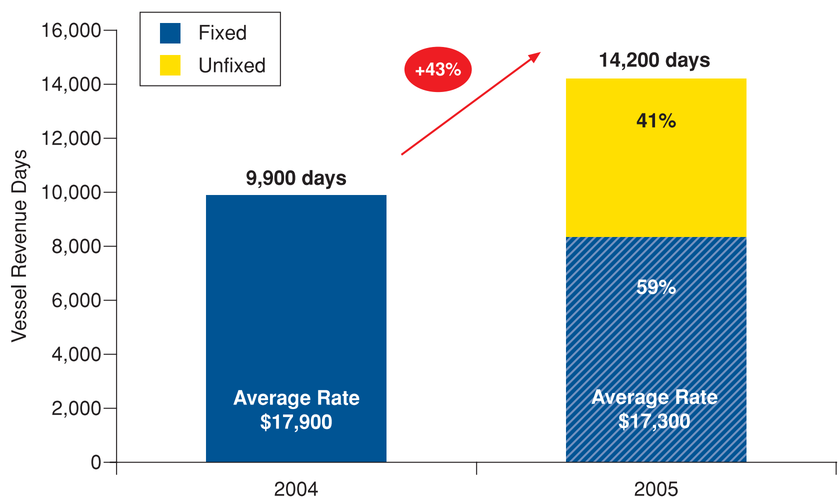
Revenue Generation and Employment Cover

The Group's operating strategy is to fix cargo contracts directly with shippers, rather than to time charter vessels out to other operators. By this approach the Group believes that it is able to improve the level of earnings achieved by its vessels through increased asset utilisation derived from the ability to link front haul and back haul voyages which reduces the amount of time spent ballasting. In 2004, the IHC pool was able to manage these scheduling and operating challenges to achieve a high level of asset utilisation thus reducing ballast days.

The Group seeks to arrange long-term cargo contracts for a significant proportion of its total fleet revenue days. The contracts are for multiple shipments at fixed rates to service the requirements of its customers, who are increasingly seeking to manage their exposure to freight costs by entering into such arrangements. This approach provides the Group with a reasonable level of certainty over its future revenue streams and provides its customers with a hedge against freight market fluctuations. The balance of fleet capacity is kept open to provide sufficient capacity to service customers' short-term freight requirements and to allow the Group to take advantage of spot market rates. This strategy allows the Group to achieve a high degree of stability in the average rates achieved by its vessels.

The Group's expected Handysize vessel revenue days for 2005 has increased to 14,200 from 9,900 in 2004 due to its fleet expansion in 2004 but before considering any further fleet expansion. By the end of February 2005, charter and cargo contract cover had been established for 59% of those 14,200 days in 2005 at an average rate of US$17,300 per day. This rate reflects the averaging of the basic contract rates in all existing front haul and back haul cargo contracts, including those that extend into 2006 and 2007, before execution premiums, i.e. it does not include any projected amount for future spot market fixtures or the benefits of enhanced asset utilisation to be achieved when contract cargoes are linked or are combined with other spot market fixtures to reduce the ballast content in these rates.

Handysize Fleet Employment Cover



Pacific Basin's two Handymaxes will provide a further 700 revenue days (2004: 100) which are 100% covered at US$8,450 per day. The Group will still have five newbuilding vessels on order, with three to come into the owned fleet and two into the long-term chartered fleet as well as the purchase options that it holds over seven of the vessels in the chartered fleet.

Commercial and Technical Operations

Meeting the requirements of a diversified but demanding customer base requires the Group to strive for the highest standards of service at all times. To support this effort, the Group now has a comprehensive network of offices around the Pacific, with over 225 shore-based staff worldwide. During 2004, new offices were opened in Shanghai and Melbourne, with an office in Vancouver being opened in early January 2005 to supplement the key operational centres in Hong Kong and London and the regional office in Tokyo.

Hong Kong remains the key location for the Group and is the principal centre for all chartering, commercial and technical operations, as well as being the Group's head office and financial and administrative centre. Expansion of this office has continued throughout the year to support the growth of the business and the fleet. It now

employs approximately 60% of the 225 shore-based personnel, necessitating the move to a larger office in March 2005 which allows all staff to be accommodated on one floor providing improved internal communication and enhanced overall efficiency.

Pacific Basin's London office relocated to a more central location during the year as it expanded to support the Group's growing presence in the Atlantic. It now employs 10 people and has full commercial and operational responsibility for vessels trading in the Atlantic.

The Shanghai office is Pacific Basin's fastest growing location and is an essential part of the Group's future development. This office has taken on the full technical management of ten of the Group's vessels and is likely to be the shore-based outlet for future fleet expansion. More significantly, however, the Shanghai office is also expected to be an important source of new business for the Group going forward. In the few months that this office has been operational Pacific Basin has already seen an increased flow of new business opportunities, with discussions underway, for example, on potential soya bean and coal contracts which it is hoped will lead to additional cargo volumes.

The newly established regional offices in Melbourne and Vancouver are both aimed at providing effective and local, same time zone support both to the Group's customers as well as to the Group's vessels when they are loading and discharging. Further offices in Singapore and Seoul support the Group's surveying and consulting services business, PacMarine Services.

FLEET LIST

THE PACIFIC BASIN FLEET
as at 1 March 2005

Owned fleet — 36 vessels:

Handysize	dwt (mt)	year of delivery
1. Port Pegasus	32,774	2004
2. Sun Ruby	32,754	2004
3. Cook Strait	31,894	2004
4. Timaru Star	31,893	2004
5. Cape Flattery	28,433	2004
6. Black Forest	32,751	2003
7. Mount Travers	28,483	2002
8. Mount Fisher*	28,473	2002
9. Ocean Exporter	28,461	2002
10. Albany Sound	28,379	2002
11. Cape York	28,471	2001
12. Cape Jaffa	28,470	2001
13. Hawke Bay	28,460	2001
14. Tasman Sea	28,456	2001
15. Cape Nelson	28,438	2001
16. Captain Corelli	28,379	2001
17. Kiwi Trader	31,879	2000
18. Pacific Logger	31,877	2000
19. Gold River	32,973	1999
20. Ansac Harmony	28,527	1998
21. Cape Spencer	28,799	1997
22. Castle Island	28,759	1997
23. Aqua Venus	28,747	1997
24. Pitt Island	28,611	1997
25. Port Pirie	27,408	1997
26. Silver Bay	26,516	1997
27. Flinders Island	27,414	1996
28. Abbot Point	27,411	1996
29. Stewart Island	28,730	1995
30. Patagonia	27,860	1995
31. Oak Harbour	28,760	1995
32. Apollo Bay	28,475	1994
33. Ocean Logger	28,429	1994
34. Priory Bay*	26,388	1992

Handymax	dwt (mt)	year of delivery
35. Xiamen Sky	53,605	2005
36. Xiamen Sea*	53,589	2004

Chartered fleet — 7 vessels:	dwt (mt)	year of delivery
37. Port Kenny	28,449	2004
38. Portland Bay	28,446	2004
39. Sea Bell	24,602	2000
40. Eastern Star	28,437	1997
41. Shinyo Challenge	27,940	1996
42. Pac Star	28,255	1995
43. Ocean Star	28,499	1993

Managed fleet — 4 vessels:	dwt (mt)	year of delivery
44. Great Concord	24,159	1999
45. Great Creation	27,383	1998
46. Torm Arawa	27,827	1997
47. Torm Pacific	27,802	1997

Total fleet size: 47 vessels

Newbuildings on Order — 5 vessels:	dwt (mt)	year of delivery	ownership
Hakodate Hull 801 tbn Port Alice	32,000	2005	owned
Kanda Hull 476 tbn Mount Rainier	32,600	2005	owned
Imabari Hull 503 tbn Port Angeles	28,100	2006	owned
Imabari Hull 507 tbn Cape Knox*	28,100	2006	owned
Kanda Hull 479 tbn Union Bay	32,000	2006	chartered

* *The Group has entered into transactions to sell these vessels and charter them back (see Fleet Expansion and Development in Business Review section)*

OUTLOOK

The very strong market for dry bulk vessels has continued into 2005 providing a positive start to the year. Apart from a seasonal dip over Chinese New Year, Handysize market rates have remained above US$20,000 per day, and the demand outlook for bulk commodities and economic indicators in the Group's main delivery destinations of Japan, China, Australia and South Korea remain encouraging.

Shipyard orderbooks are virtually full for the next two to three years and the Group remains confident that there will be only modest newbuilding deliveries for this sector and, based on current newbuilding demand projections only, manageable deliveries for the dry bulk sector as a whole. The supply picture is not expected to deteriorate in the short term and, until a fundamental change becomes evident, the Group believes that rates will continue to be healthy and supported at a higher base than has been the case historically. Additionally, until the short-term tightness between demand and supply is alleviated, the conditions that created the peak demand rate spikes in the first and fourth quarters of 2004 remain in place.

Pacific Basin's strategy continues to be to focus on providing direct freight services to the world's leading commodity companies, backed by a modern fleet of Handysize vessels. The Group believes that the growth in demand from its customers and the cargo opportunities available to the Group clearly support continued development of its business in this niche sector. Meeting that growth through further capacity expansion will depend mostly on its ability to source additional newbuilding vessels and modern second hand tonnage which the Group believes it is better placed to achieve than most other Handysize owners.

Pacific Basin's customer relationships with leading international commodity groups, combined with its exceptionally modern fleet and the increasing visibility of its presence in Shanghai (and China in general) are also giving the Group access to some interesting and potentially significant opportunities for long-term inbound and outward cargo contracts, using vessels other than Handysize. These include iron ore, steel, coal, soya bean and grain shipments and represent an exciting development which the Group hopes will develop into an increasingly important part of its total activity.

In view of Pacific Basin's 2004 fleet expansion driving growth into 2005, combined with the Group's good contract cover at attractive rates for this year and into 2006 and positive demand and supply fundamentals for the market, the Group remains optimistic about the outlook for the dry bulk shipping market generally and for Pacific Basin's business in particular.

FINANCIAL REVIEW

Introduction

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 undertook a reorganisation during 2004 as described more fully in Note 1 to the accounts in this report which should be read in conjunction with the following commentary.

The Group's profit and loss account therefore consists of results for the twelve months ended 31 December 2004 in the case of the companies subject to the Exchange of Shares, and consolidated results for the nine-month period from 1 April to 31 December 2004 for the companies acquired through the Further Acquisitions. The comparative profit and loss account for the twelve months ended 31 December 2003 consists only of the consolidated results of the companies subject to the Exchange of Shares.

Review of Income

Total turnover increased to US$234.3 million in 2004 from US$54.2 million in 2003. Approximately 95.9% of total turnover was generated from the employment of vessels in the owned and chartered fleet and the remaining 4.1% by ship management revenues derived from the provision of commercial and technical management services for third-party vessels and revenues from marine service businesses. Net profit attributable to shareholders increased to US$103.5 million from US$22.7 million.

Following the Group's reorganisation on 31 March 2004, turnover is shown gross of voyage-related expenses. These expenses relate primarily to commissions, ships' bunkers and port-related costs. The total amount of voyage related expenses deducted from turnover was US$45.4 million, leaving US$188.9 million as turnover on a time charter equivalent basis.

The average daily rate which the vessels achieved increased 82.6% to approximately US$17,900 in 2004 from US$9,800 in 2003.

The average number of owned vessels grew from 13 in 2003 to 22 in 2004, an increase of 69.2%, as a result of the delivery of six vessels acquired pursuant to the reorganisation, the delivery of two newbuildings in May and further deliveries of 11 vessels after the Listing (including four vessels acquired conditional upon the completion of the Listing and seven vessels acquired after the Listing and before the year end). The average number of chartered-in vessels increased from approximately two in 2003 to approximately six in 2004. This expansion in chartered-in vessels gave rise to an increase of US$30.7 million and US$17.3 million in the Group's consolidated turnover and net profit attributable to shareholders respectively.

Review of Expenses

Direct costs increased to US$70.7 million in 2004 from US$26.2 million in 2003. Direct costs include crew costs, vessel operating expenses, drydocking expenses, depreciation, operating lease expenses on vessels chartered in and cost of marine products sold. An overhead allocation of US$11.0 million has been included in direct costs for the first time in 2004 following the acquisition of the management companies pursuant to the reorganisation. This represented shore-based costs of staff, offices and related expenses directly attributable to the employment and operation of the owned and chartered fleet.

Charter-hire expenses on vessels increased to US$18.7 million in 2004 from US$5.2 million in 2003. This was due to the increase in the average number of vessels chartered in to approximately six in 2004 from approximately two in 2003. The average daily charter rate increased to approximately US$8,500 in 2004 from approximately US$6,700 in 2003.

Direct costs for operating the Group's owned vessels, including crew costs, depreciation, drydocking expenses and direct cost following the reorganisation, were US$45.2 million in 2004, up from US$21.0 million in 2003. In part this reflects the expansion in the number of the Group's owned vessels by 69.2%. However, included within these costs were drydocking expenses on the larger fleet of US$4.5 million (2003: $0.6 million) relating to 12 vessels dry-docked in 2004 as compared to three in 2003.

General and administrative expenses were US$6.9 million in 2004 as compared to US$0.5 million in 2003. This was the result of the acquisition (pursuant to the reorganisation) of the management companies, effective 31 March 2004, and represents nine months of costs which include Directors, senior management and administrative staff costs of US$3.6 million, amortisation of goodwill of US$1.3 million, travel and marketing expenses of US$0.5 million, audit and other professional fees of US$0.5 million and other administrative and office expenses of US$1.0 million.

Finance costs consisted of interest payments on bank borrowings of US$7.8 million used to finance the Group's owned vessels, loan arrangement and commitment fees of US$1.5 million, and net cost of swap contracts of US$0.9 million. Interest payments on bank borrowings increased by 62.5% to US$7.8 million in 2004 from US$4.8 million in 2003. Bank loans in 2004 carried interest rates (including swaps) which ranged from approximately 2.5% to 5.0%, as compared to approximately 2.5% to 3.9% in 2003.

Liquidity and Sources of Capital

Net cash generated by operating activities was US$125.7 million in 2004 and US$35.8 million in 2003.

Net cash used in investing activities was US$268.8 million in 2004, primarily as a result of purchases of vessels of US$269.3 million. Net cash used in investing activities was US$27.3 million in 2003, primarily as a result of purchases of vessels of US$27.1 million. The increase in cash used in investing activities in 2004 was primarily due to an increase in the number of vessels acquired, of which 15 vessels were delivered in 2004, as compared to two vessels delivered in 2003.

Net cash provided by financing activities was US$178.9 in 2004, primarily as a result of additional bank loans for the acquisition of vessels of US$189.8 million, net IPO proceeds of $71.7 million, considerations paid to the then shareholders of the Company before the reorganisation of US$24.2 million and dividend payments of US$49.8 million paid to the shareholders of the group companies prior to the Listing. Net cash used in financing activities was US$8.8 million in 2003, primarily as a result of dividend payments of US$13.9 million.

As at 31 December 2004, the Group had working capital of US$18.3 million excluding long-term bank loans repayable within one year of US$36.1

million and the primary source of liquidity was US$41.7 million of bank balances and cash. The Group's primary short-term liquidity need is to fund general working capital requirements while long-term liquidity needs are primarily associated with expansion of the fleet and other capital expenditure. The Group's current policy is to borrow from banks approximately 60% of the fair market value of vessels acquired.

The indebtedness of the Group solely comprises bank borrowings which the Group monitors closely to ensure a smooth repayment schedule to maturity. As at 31 December 2004, the Group had total outstanding borrowings of approximately US$371.0 million, comprising the current portion of long-term secured bank borrowings of approximately US$36.1 million and long-term secured bank borrowings of approximately US$334.9 million all expiring in the year 2012.

The Group is exposed to interest rate fluctuations on its bank borrowings. As at 31 December 2004, a total of US$181.8 million of bank borrowings was hedged by way of interest rate swap and cap arrangements with banks. The term of these hedging arrangements ranges from three to five years.

As at 31 December 2004, the Group's banking facilities were secured by mortgages over vessels and vessels under construction with a total net book value of approximately US$533.3 million and fixed deposits of approximately US$6.1 million, assignments of earnings and insurances in respect of the vessels and charges over the shares of certain vessel-owning subsidiaries.

The Group's gearing measured as total bank borrowings net of cash as a percentage to fixed assets was 59.4% (2003: 68.6%). This drop in gearing ratio is primarily due to the increase in cash balances as a result of the inclusion of the cash held by the companies acquired at the reorganisation and the cash generated from operations during the year.

At 31 December 2004, the Group had an outstanding foreign exchange contract with a bank to buy approximately Yen4.0 million and simultaneously to sell US$38,400 for operating expenses denominated in Japanese Yen.

At the year end, the Group had bunkers hedging contracts to buy approximately 96,500 metric tonnes of bunkers at fixed prices which will expire through December 2007. These commitments were made to hedge for fluctuations in bunker prices in connection with the Group's long-term cargo contract commitments.

Capital Expenditure

In 2004, capital expenditure on vessel additions, including instalments on newbuildings, were US$269.3 million.

As at 31 December 2004, the Group had non-cancellable commitments for the acquisition of one modern Handysize vessel and the construction of four Handysize vessels and one Handymax vessel for delivery between January 2005 and November 2006, with an aggregate unpaid cost of approximately US$105.7 million. Unpaid costs are net of progress payments and prepayments. Scheduled payments will be funded in 2005. Finance for such vessel commitments will come from cash generated from operations and additional long-term debt, as required.

Directors' Opinion on the Working Capital Available to the Group

The Directors are of the opinion that, taking into consideration the financial resources available to the Group, including internally-generated funds and the available banking facilities, the Group has sufficient working capital to satisfy its present requirements.

Staff

As at 31 December 2004, including the Executive Directors, the Group employed a total of 217 full-time shore-based employees based in Hong Kong, London, Manila, Melbourne, Seoul, Shanghai, Singapore and Tokyo.

Remuneration of the Group's employees includes basic salaries, bonuses and long-term incentives. The Group incurred total staff costs of approximately US$11.7 million for the year ended 31 December 2004, representing 5.0% of the Group's turnover for that year.

Personnel are remunerated on a fixed-salary basis and are entitled to a discretionary bonus based on both the Group and individual performance of the year and/or to performance-related bonuses if certain financial targets, which are set annually by the Board, are achieved.

The Group's principal retirement benefit scheme is the Mandatory Provident Fund Scheme (the "MFP Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those staff employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme.

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme of 5% to 10% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The Company has also adopted a share option scheme, the terms of which were approved by a written resolution of the shareholders of the Company dated 17 June 2004. The detailed terms of the scheme were disclosed in the prospectus of the Company dated 30 June 2004 (the "Prospectus"). Up to the date of this report, options have been granted (on 14 July 2004) for 55,500,000 shares at HK$2.50 per share. All options may be exercised over a period of 10 years and vest over a period of three years.

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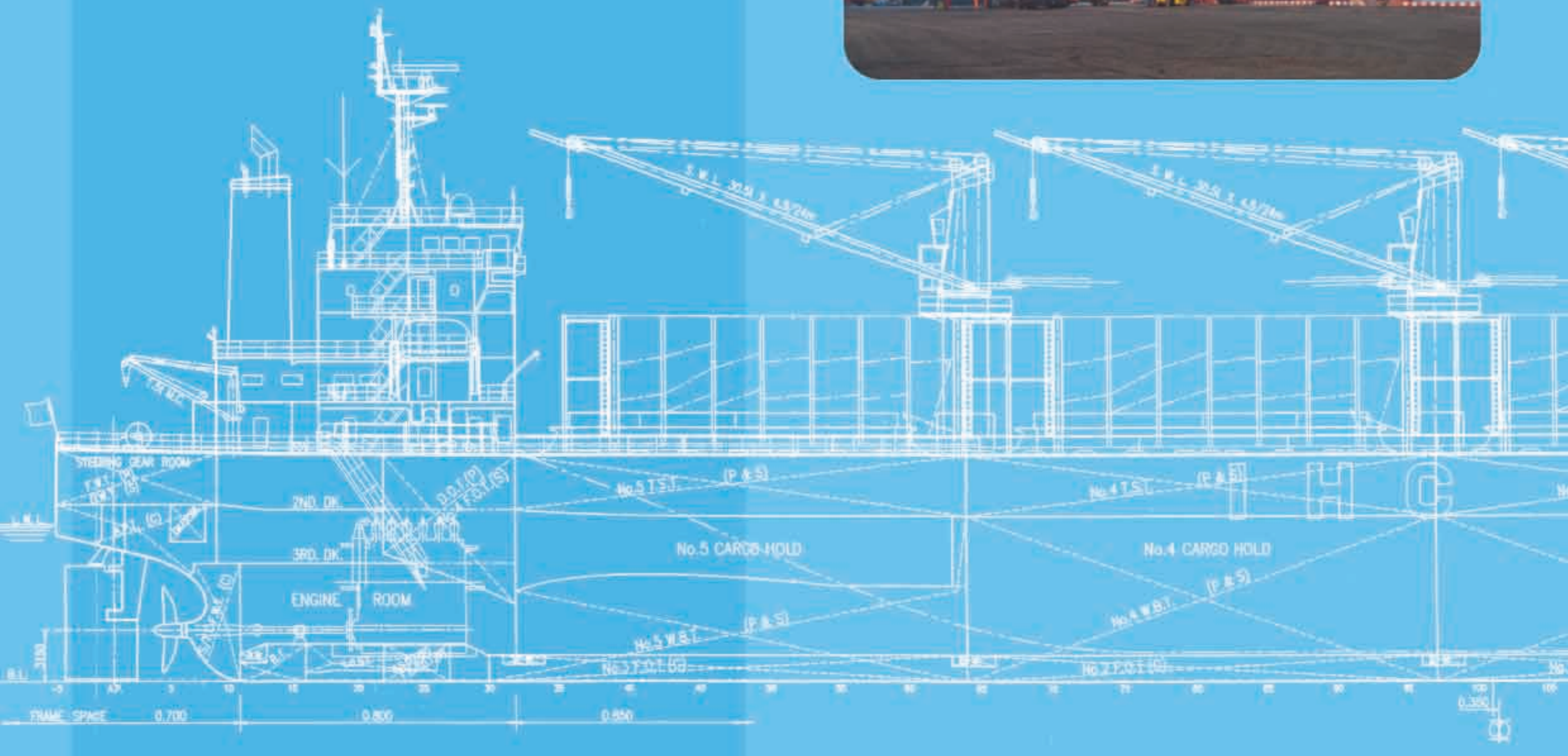


CORPORATE GOVERNANCE

Corporate Governance Practices

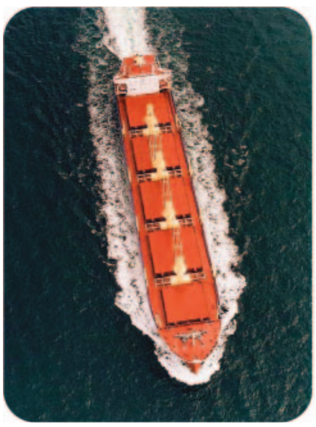
The Group is committed to maintaining and observing the highest standards of corporate governance consistent with the needs and requirements of the business and all of its stakeholders. Corporate policies and practices are designed to ensure a high degree of transparency, responsibility and accountability. To safeguard the interests of shareholders, customers and staff, the Group has established a balanced corporate governance system through the Board of Directors and its committees. The objectives are to satisfy regulatory and technical compliance and to ensure that the system of corporate governance and the corporate culture established by the Board is communicated throughout the Group so that staff conduct themselves in a manner consistent with that corporate culture.

Throughout the year, the Group was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board of Directors

The Board's primary responsibilities are to formulate the Pacific Basin's long-term corporate strategy, to oversee the management of the Group, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board. The Board is directly accountable to the shareholders.

On 1 March 2005, the Board consisted of nine Directors, whose details are provided in the "Directors and Senior Management" section of this Annual Report. Three of the Directors are executive, three are non-executive and three are independent non-executive. The six non-executive Directors bring a broad range of financial, regulatory and commercial experience to the Board, which contributes to the effective strategic management of the Group. The executive directors shall not engage in any other business which is in competition with that of the Group, and are required, with the exception of the Chairman, to devote their active business time to the business and affairs of the Group.



The Board is required to approve the acquisition or disposal of vessel tonnage, developments in the strategic direction of the Group, treasury and risk management, matters involving a conflict of interest for a substantial shareholder or Director and key human resource issues.

At the time the three independent non-executive Directors were appointed in March 2004, they submitted to the Hong Kong Stock Exchange written confirmations of their independence.

The Board has received confirmations from all three independent non-executive Directors of their independence as at 1 March 2005 and still considers them to be independent.

The Board meets four times a year and on other occasions when a major issue requires a Board decision. The Company held two full Board meetings for the financial year 2004 after its Listing in July 2004 and all Board members participated either by telephone or physical attendance.

The Remuneration Committee

The Remuneration Committee was established on 10 June 2004 and consists of five Directors, comprising the three independent non-executive Directors (appointed on 10 June 2004) and two non-executive Directors (appointed on 15 September 2004).

The main responsibility of the Remuneration Committee is to determine the remuneration structure of the executive Directors and senior management, taking into account the salaries paid by comparable companies, time commitment and responsibilities of the Director or senior manager. It makes recommendations to the Board for the remuneration of non-executive Directors. It also reviews and approves performance-based remuneration as well as administers and oversees the Group's long-term equity incentive programme. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration. The terms of reference setting out authorities and duties of the Remuneration Committee were approved by the Board on 15 September 2004. These were updated on 1 March 2005 to reflect changes in the new Code on Corporate Governance Practices (the "Code") which came into effect on 1 January 2005.

The Remuneration Committee, by written resolution on 25 June 2004, approved the grant of 55,500,000 share options offered to and accepted by executive Directors and other employees. A meeting attended by all members of the Remuneration Committee was held on 30 November 2004 to review the policy for staff bonuses for 2004 and the staff salary increases for 2005.

The Audit Committee

The Audit Committee was established on 18 May 2004 and consists of all three independent non-executive Directors.

The main responsibility of the Audit Committee is to review the financial accounts and the auditors' reports. Other responsibilities include the appointment of auditors, approval of the auditors' remuneration, discussion of audit procedures and any other matters resulting from the above. The Audit Committee is also charged with the monitoring of internal controls and their effectiveness. The terms of reference for the Audit Committee were approved by the Board on 10 June 2004. These were updated on 1 March 2005 to reflect changes in the new Code which came into effect on 1 January 2005.

The Audit Committee held two meetings during 2004. The first meeting on 2 September 2004 reviewed the interim results. The auditors were present at the meeting and presented their audit committee report. The Audit Committee concluded that the half-year accounts were suitable for adoption by the Board. The second meeting on 15 November 2004 reviewed the existing internal controls framework and considered the Company's plans to conduct during 2005 a review of the internal controls covering its key risks. The meeting also reviewed the existing methodology to recharge overheads from group cost centres to group income centres. All members of the Audit Committee attended these meetings in person or by telephone.

The Nomination Committee

The Nomination Committee was established on 30 November 2004 and consists of five Directors, comprising the three independent non-executive directors (appointed on 30 November 2004) and two non-executive directors (appointed on 1 March 2005).

The main responsibility of the Nomination Committee is to oversee the nomination of Directors to the Board to ensure 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. The Nomination Committee also reviews the structure, size and composition of the Board, paying regard to the Hong Kong Stock Exchange board composition rules.

The terms of reference of the Nomination Committee were approved by written resolution of the Board on 11 March 2005.

No meetings of the Nomination Committee were held in 2004.

Directors' Securities Transactions

The Board of Directors adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code") on 10 June 2004 prior to the Company becoming listed on the Hong Kong Stock Exchange.

The Board confirms that, having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Senior Management and Staff Securities Transactions

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 have adopted rules based on the Model Code for Securities Transactions by Directors on 30 August 2004 (the "Dealing Rules"). These senior managers and staff have been individually notified and provided with a copy of the Dealing Rules.

Directors and Senior Management Remuneration and Share Ownership

The key components of remuneration for executive Directors and senior managers comprise fixed and variable elements including base salary, annual bonus and long-term equity incentives. The Board seeks to provide remuneration packages that are competitive, accord with market practice and allow the Company to attract and to retain executives with the skills, experience and qualifications needed to manage and grow the business successfully.

Base salary takes into consideration prevailing market conditions, local market practice as well as the individual's role, duties, experience and responsibilities.

For the executive Directors and the three most senior managers, the 2004 bonus covered the nine month period from 1 April 2004 to 31 December 2004 and comprised two parts:

(i) Up to 50% of base pay determined by reference to the Group achieving specific financial targets set by the Remuneration Committee;

(ii) Up to 50% of base pay awarded by the Remuneration Committee on a discretionary basis. Awards are determined based on the overall performance of the individual and the Group as assessed by the Remuneration Committee.

All other senior managers are eligible for a discretionary bonus which is also determined by reference to the financial performance of the Group or the business unit of the individual and the overall performance of that individual and the achievement of his or her personal objectives.

Equity rewards are provided through the Company's share option scheme which is designed to provide executive Directors and senior management with long-term incentives that are aligned to and consistent with increasing shareholder value. Following the introduction of new rules relating to the way in which share options are accounted for, which came into effect on 1 January 2005, the Remuneration Committee is assessing the merits of other long-term incentive arrangements, including restricted share and restricted share unit plans, to ensure that the Company continues to provide the most appropriate and cost effective long-term incentives.

Options over 55,500,000 shares were granted to 28 members of staff, including the three executive Directors, on 14 July 2004. These options priced at HK$2.50 each and they vest in equal tranches on the first, second and third anniversary of the date of grant.

Non-executive Directors

The non-executive Directors of the Company are paid fees in line with market practice. The Company pays the following annual fees paid with pro-rata adjustment for service less than one year:

	HK$'000
Non-executive Director	200
Chairman of Board Committee	100
Member of Board Committee	50

The total amount of non-executive Directors' fees paid during the year ended 31 December 2004 was HK$970,000 (US$124,000).

Total Directors' Remuneration in 2004

The aggregate amount of emoluments payable to Directors of the Company during the year was US$2,019,000.

Total Senior Management Remuneration in 2004

The aggregate amount of emoluments paid to senior management (as listed on pages 13 to 15) of the Company during the year was US$2,504,000.

Auditors' Remuneration

Remuneration paid to PricewaterhouseCoopers for services provided for the year are as follows:

	US$'000
Audit-related	252
Non-audit related	74
Total	326

Shareholders' Rights

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may write directly to the Company Secretary at the Company's Hong Kong registered office of 7th Floor, Hutchison House, 10 Harcourt Road, Hong Kong, or they may send an email to companysecretary@pacbasin.com.

Should shareholders wish to call a special general meeting, it must be convened according to Company's Bye-laws. In summary:

1. 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.
2. 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 being received. If the Board fails to proceed to convene 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.

Other Shareholder Information

Financial Calendar 2005	
Last day of dealings in shares with entitlement to final dividend	22 April
Deadline for lodging transfers for entitlement to final dividend	26 April 4pm HK time
Book closure period (all days inclusive)	27–29 April
Record date for final dividend	29 April
Annual General Meeting	29 April
Final dividend payment date	6 May
Tentative:	
Announcement of 2005 interim results	6 September
Last day of dealings in shares with entitlement to interim dividend	16 September
Deadline for lodging transfers for entitlement to interim dividend	21 September 4pm HK time
Record date for interim dividend	23 September
Book closure period (both days inclusive)	22–23 September
Interim dividend payment date	4 October

Shareholders Meeting and Amendments to Bye-laws

The Company did not hold any shareholders meetings during the year except a statutory meeting of members on 15 March 2004 in which approvals were given to adoption of Bye-laws of the Company, appointment of Directors and auditors and increase of authorised share capital. New Bye-laws of the Company were conditionally approved and adopted by written resolutions of all shareholders on 17 June 2004 conditional upon the lapse of the grounds for terminating the Underwriting Agreements as defined in the prospectus, with the relevant conditions becoming fulfilled on 14 July 2004.

Investor Relations

Pacific Basin's policy is to ensure a high degree of transparency and the Company is committed to ensuring that the market is informed of relevant information about itself on a regular basis thus allowing existing and potential shareholders to evaluate the Company, its performance and its prospects.

The Company provides detailed information in annual and interim reports which are supplemented by regular trading updates, as well as via telephone conferences and video webcasts of annual and interim results, and through regular investor presentations delivered internationally.

For more information, investors may write directly to the Company at its Hong Kong registered office of 7th Floor, Hutchison House, 10 Harcourt Road, Hong Kong, or by e-mail to ir@pacbasin.com.

Share Information

The Company's ordinary shares are listed and traded on the Hong Kong Stock Exchange under stock code 2343.HK.

1,267,010,609 Ordinary shares were in issue as at 31 December 2004.

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Pacific Basin believes in the importance of a long-term relationship with its shareholders, employees, customers, business partners and other stakeholders and strives to behave responsibly towards them and to society as a whole. Safety and environmental protection are also key priorities for the Group. Pacific Basin believes that this commitment to social, safety and environmental responsibilities indirectly gives rise to comparative advantages for the Group in the marketplace, particularly in the longer term.

Responsibilities to Shareholders and Employees

To safeguard the interests of its shareholders, customers and staff alike, Pacific Basin believes in the responsibility to practice and promote good corporate governance beyond the standards established by regulatory authorities. The Group has established a balanced corporate governance system through the Board of Directors and its committees and ensures that the corporate culture established by the Board is communicated to staff throughout the Group. Pacific Basin was in compliance with the Code of Best Practice as set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. (Please see "Corporate Governance" for more details).

Responsibilities to Customers and Business Partners

Pacific Basin places great emphasis on relationships with its customers and business partners based on honesty and trust, and seeks to understand their business needs and aims with a view to ensuring mutually beneficial long-term business partnerships.

Pacific Basin is committed to the application of sound and internationally-accepted business ethics and principles. It strives to conduct business in the most responsible manner to ensure customer satisfaction at all times whilst always complying with strict statutory and regulatory requirements, including the codes, guidelines and standards recommended by the International Maritime Organisation, relevant flag state administrations, classification societies and other maritime industry organisations all of whom the Group deems to be an integral part of its larger business partnership.

Pacific Basin avoids cooperating with suppliers and contractors whose environmental, safety and employment standards of practice are known to conflict with those of the Group.

Responsibilities to the Community

Pacific Basin is committed to playing its role as a responsible member of the community both in Hong Kong where the Group is headquartered and in the many cities and ports around the world where it is represented by its staff, whether they be shore-based executives or shipboard officers and crew.

The Group endeavours to play its part in the betterment of the shipping industry through active membership of maritime bodies and associations such as the Baltic Exchange in London, Protection & Indemnity clubs with which Pacific Basin senior executives have directorships, and the Hong Kong Shipowners Association of which Pacific Basin is a member with one of the largest fleets trading under the Hong Kong flag.

Pacific Basin is a major supporter of the Chinese seafaring community and the training of Chinese seafarers, and is one of the largest foreign employers of Chinese crew. The Group's growing body of young Chinese management executives and seagoing personnel is a testimony to its commitment to the employment of Chinese graduates and seafarers.

The Group takes pride in making contributions to the well-being of society and the needy in part through financial donations to charities often linked to the maritime industry. In 2004, Pacific Basin supported a number of charities including The Sailors' Home and Missions to Seamen, Operation Santa Claus, The Community Chest of Hong Kong, The Hong Kong Cancer Fund and The Hong Kong Liver Foundation with donations amounting to approximately US$52,000.

Safety and Environmental Responsibility

Pacific Basin is committed to the safe, environmentally-conscious and socially responsible operation of its ships at sea and its business ashore through a proactive and integrated management system which conforms to the mandatory International Safety Management (ISM) Code and voluntary ISO standards. This "Pacific Basin Management System" has been implemented across the Pacific Basin fleet and shore-based operations with the primary objectives of ensuring:

- safety at sea and ashore and the prevention of injury or loss of life;
- avoidance of damage to the environment, in particular the marine environment, and to property.

The positive results of this programme are in part reflected in the Group's commendable safety record as well as its port state control, classification society and flag state inspections record.

The Group applies robust selection and training procedures when recruiting new seafarers. This is augmented by regular on-board systems training provided by its fleet training superintendents to promote the Pacific Basin Management System and the application of rigorous planned maintenance and machinery inspection regimes and, more generally, a pro-active safety culture on board all Pacific Basin ships.

Pacific Basin seeks to minimise its impact on the environment in a number of ways. The Group operates a fleet of modern, fuel-efficient vessels. Fuel efficiency is maintained through the regular maintenance of the vessels' main engines as well as the appropriate treatment of the vessels' hulls under the waterline. All Pacific Basin vessels are treated with only tin-free anti-fouling paints of a grade that has minimum environmental impact whilst ensuring an appropriate level of protection to the hull for periods of up to five years between drydockings.

Pacific Basin is implementing the voluntary ISO 9001:2000 (quality management), 14001 (environmental quality assurance) and OHSAS 18001 (occupational health and safety systems) standards demonstrating its commitment to quality, safety and environmental protection. The Group's technical operation has been accredited by Lloyd's Register Quality Assurance (LRQA) to the ISO 9001:2000 standard and is on target to achieve ISO 14001 and OHSAS 18001 certification (pending) within the second quarter of 2005.

The Directors have pleasure in submitting their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004.

Principal activities and analysis of operations

The Company was incorporated on 10 March 2004. The principal activity of the Company is investment holding. The activities of the Company's subsidiaries (set out in Note 33 to the accounts) are primarily ship owning, ship chartering and the provision of ship management services. An analysis of the Group's performance for the year by business segment is set out in Note 3 to the accounts.

Results and appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 55.

The Group's dividend policy is to pay out by way of interim and final dividends not less than 50% of profits available for distribution in each financial year. For 2004, dividend payments are based on the results for the period from 1 June to 31 December 2004 because all retained earnings up to 31 May 2004 were paid out to shareholders of the Company prior to the reorganisation of the Group and the Listing.

In view of the above dividend policy and taking into consideration the Group's performance and current financial position, the Directors have recommended the payment of a final dividend of HK$0.16 (equivalent to US$0.02) per share for the financial year ended 31 December 2004. When this proposed final dividend is aggregated with the mid-period interim dividend of HK$0.08 (equivalent to US$0.01) per share declared on 13 December 2004, the total payout of HK$0.24 per share represents 56% of the Group's profits for the seven months ended 31 December 2004. The proposed final dividend for 2004 of HK$0.16 per share is to be considered at the 2005 Annual General Meeting scheduled for 29 April 2005.

Henceforth it is anticipated that the normal sequence of dividend declarations will be an interim dividend following the announcement of interim results and a final dividend following the announcement of full year results.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Note 28 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to US$52,000.

Fixed assets

Details of the movements in fixed assets of the Group during the year are set out in Note 13 to the accounts.

Share capital

Details of the movements in share capital of the Company during the year are set out in Note 27 to the accounts.

Distributable reserves

Distributable reserves of the Company at 31 December 2004, calculated under Companies Act 1981 of Bermuda, amounted to US$26.4 million.

Pre-emptive rights

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

Financial summary

A summary of the results and of the assets and liabilities of the Group for the last four-financial years is set out on page 98.

Purchase, sale or redemption of securities

During the year, neither the Company nor any of its subsidiaries had sold or redeemed any of the Company's shares with the exception of the re-purchase by the Company of 53,329.40 Class A shares, 63,990.96 Class B shares and 2,682.64 Class C shares at purchase prices of US$1 in respect of each class of share by private arrangement pursuant to a board resolution passed on 11 May 2004.

Share option scheme

Share options are granted to certain Directors, senior management and employees under a share option scheme approved by shareholders on 17 June 2004 (the "Share Option Scheme").

(a) *Purpose and eligible participants of the Share Option Scheme*

The Share Option Scheme enables the Company to grant options to eligible participants (and their related trusts and companies), principally directors, employees, secondees, shareholders, business partners, agents, consultants or representatives, customers of the Group or of any Controlling Shareholder, suppliers of goods and services and persons or entities that provide research, development, advisory, consultancy or professional services to the Group or any Controlling Shareholder, as an incentive or reward for their contributions to the Group.

(b) *Maximum number of shares*

The total number of shares available for issue under options which may be granted under the Share Option Scheme or any other schemes must not, in aggregate, exceed 126,701,060 shares, representing 10% of the shares in issue at the time dealings in the shares first commenced on the Hong Kong Stock Exchange. As at 31 December 2004, 55,500,000 shares were granted under the Share Option Scheme which represents 4.38% of the issued share capital of the Company.

(c) *Limit for each eligible participant*

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

(d) *Basis of determining the exercise price*

The exercise price payable on exercise of the options under the Share Option Scheme 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 Hong Kong Stock Exchange's daily quotations sheet on the date of grant of that option, which must be a business day; (ii) the average of the closing prices per share as stated in the Hong Kong Stock Exchange's daily quotations sheets for the five business days immediately preceding the date of grant of that option; and (iii) the nominal value of the shares.

All notices to exercise the 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.

(e) *Remaining life of the scheme*

The Share Option Scheme will remain in force for a period of 10 years commencing on 14 July 2004 being the date the shares were listed on the Hong Kong Stock Exchange. Upon termination, no further options may be granted under the Share Option Scheme.

(f) *Share options granted*

Details of the share options outstanding as at 31 December 2004 which have been granted under the scheme are as follows:

	Number of Options					
	held at 1 January 2004	**granted during the year**	**exercised during the year**	**held at 31 December 2004**	**exercise price**	**Percentage of issued share capital**
					HK$	
Executive Directors						
Christopher R. Buttery	—	4,800,000	—	4,800,000	2.50	0.38%
Mark M. Harris	—	4,800,000	—	4,800,000	2.50	0.38%
Paul C. Over	—	4,800,000	—	4,800,000	2.50	0.38%
Senior Management	—	21,600,000	—	21,600,000	2.50	1.70%
Other Employees	—	19,500,000	—	19,500,000	2.50	1.54%
	—	55,500,000	—	55,500,000		

Note: The share options were granted on 14 July 2004 and vest over three years. One-third of the options may be exercised one year after the date of grant, one-third two years after the date of grant and one-third three years after the date of grant. All options will expire on 13 July 2014.

(g) *Valuation of the Share Option Scheme*

Based on a report prepared by Watson Wyatt Hong Kong Limited on 15 October 2004, the fair market value of the share options granted under the Share Option Scheme based on the binomial option pricing model is as follows:

Tranche	Exercise period	Fair value per share option	Number of share options as at date of grant
		HK$	
1	14 July 2005 to 13 July 2014	0.838	18,500,000
2	14 July 2006 to 13 July 2014	0.839	18,500,000
3	14 July 2007 to 13 July 2014	0.825	18,500,000
			55,500,000

Note: Key assumptions include 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% per annum and that the employees will exercise their share options if the share price is 100% above the exercise price.

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 who held office during the year and up to the date of this report are set out below:

	Date of Appointment				
Name of Director	Board	Audit Committee	Remuneration Committee	Nomination Committee	Term of appointment
Executive Directors					
Christopher R. BUTTERY (Chairman)	15 March 2004	—	—	—	3 years from 1 April 2004
Mark M. HARRIS (Group Chief Executive)	15 March 2004	—	—	—	3 years from 1 April 2004(1)
Paul C. OVER	15 March 2004	—	—	—	3 years from 1 April 2004(1)
Non-Executive Directors					
Simon K.Y. LEE (Deputy Chairman)	15 March 2004	—	15 September 2004	1 March 2005	12 months from 5 June 2004(1)
Brian P. FRIEDMAN	15 March 2004	—	15 September 2004	1 March 2005	12 months from 5 June 2004(1)
James J. DOWLING	15 March 2004	—	—	—	12 months from 5 June 2004(1)
Independent Non-Executive Directors					
Patrick B. PAUL Chairman of Audit Committee	25 March 2004	18 May 2004	10 June 2004	30 November 2004	3 years from 28 May 2004(1)
Robert C. NICHOLSON Chairman of Remuneration and Nomination Committee	25 March 2004	18 May 2004	10 June 2004	30 November 2004	3 years from 28 May 2004(1)
The Earl of CROMER	25 March 2004	18 May 2004	10 June 2004	30 November 2004	3 years from 28 May 2004(1)

Note:

(1) Per Bye-law 87(1), one-third of the Directors (except the Chairman of the Board) 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.

In accordance with Bye-law 86(2) of Bye-laws of the Company, Patrick B. Paul, Robert C. Nicholson and The Earl of Cromer, the three independent non-executive directors, all appointed by the Board, shall be eligible for re-election at the forthcoming 2005 Annual General Meeting.

In accordance with Bye-laws 87(1) & (2), Mark M. Harris will retire at the forthcoming 2005 Annual General Meeting and, being eligible, will offer himself for re-election.

Directors' service contracts

None of the Directors who are proposed for re-election at the forthcoming 2005 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 on page 10 to 15.

Directors' and Chief Executives' interests and short positions in the shares and underlying shares and debentures of the Company or any associated corporation

At 31 December 2004, the discloseable interests and short positions of each Director and the Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Director		Personal interests	Corporate interests	Trust & similar interests	Total share interests	Percentage of issued share capital
Christopher R. Buttery	Long Positions	100,000	—	12,059,623(1)	12,159,623	0.96%
	Short Positions	—	—	—	—	—
Paul C. Over	Long Positions	—	—	12,059,623(2)	12,059,623	0.95%
	Short Positions	—	—	—	—	—
Brian P. Friedman	Long Positions	—	241,195,194(3)	—	241,195,194	19.04%
	Short Positions	—	—	—	—	—
Simon K.Y. Lee	Long Positions	—	—	36,536,997(4)	36,536,997	2.88%
	Short Positions	—	—	—	—	—

Notes:

(1) 12,059,623 shares are beneficially owned by Plymouth Shipping Investments Limited, which is wholly owned by Turnwell Limited and Ansleigh Limited in equal shares. Mr. Buttery is deemed to be interested in the entire share capital of Turnwell Limited under the SFO as its shares are held by a discretionary trust set up by him and the discretionary objects of which include himself and his family members.

(2) 12,059,623 shares are beneficially owned by Plymouth Shipping Investments Limited, which is wholly owned by Turnwell Limited and Ansleigh Limited in equal shares. Mr. Over is deemed to be interested in the entire share capital of Ansleigh Limited under the SFO as its shares are held by a discretionary trust set up by him and the discretionary objects of which include himself and his family members.

(3) Mr. Friedman is a managing member of FS Private Investments LLC, which is the manager of each of Furman Selz Investors II L.P., FS Employee Investors LLC and FS Parallel Fund LP, being the members of IDB Carriers (BVI) Limited. Under these arrangements, Mr. Friedman is entitled, as a managing member of FS Private Investments LLC, to exercise or control the exercise of rights conferred by the holding of all the shares in IDB Carriers (BVI) Limited. Accordingly, Mr. Friedman is taken to be interested in the 241,195,194 shares held by IDB Carriers (BVI) Limited.

(4) 1,059,725 shares, 22,335,373 shares and 13,141,899 shares are beneficially owned by Firelight Investments Limited, Eagle Pacific International Limited and Eagle Sky Investments Limited respectively. These companies are controlled by discretionary trusts established by Mr. Lee, the discretionary objects of which include his family members.

Share options were granted to certain Directors under the Share Option Scheme and have been disclosed on page 44.

Save as disclosed above, 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 Executives of the Company to hold any interests or short positions in the shares or underlying shares in, or debentures of, the Company or its associated corporation.

Substantial shareholders' interests and long 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 2004, 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. These interests are in addition to those disclosed above in respect of the Directors and Chief Executive.

Name of Shareholder	Capacity/Nature of interest		Number of shares	Percentage of issued share capital
Dry Bulk Shipping (BVI) Limited	Beneficial owner	Long Positions Short Positions	289,433,689 —	22.84% —
IDB Carriers (BVI) Limited	Beneficial owner	Long Positions Short Positions	241,195,194 —	19.04% —
Nassau Capital Real Estate Partners III L.P.[(1)]	Interest of a controlled corporation	Long Positions Short Positions	289,433,689 —	22.84% —
Furman Selz Investors II L.P.[(2)]	Interest of a controlled corporation	Long Positions Short Positions	241,195,194 —	19.04% —
FS Private Investments LLC[(2)]	Interest of a controlled corporation	Long Positions Short Positions	241,195,194 —	19.04% —
James L. Luikart[(3)]	Interest of a controlled corporation	Long Positions Short Positions	241,195,194 —	19.04% —
Pembroke Shipping Limited	Beneficial owner	Long Positions Short Positions	179,589,622 —	14.17% —

Notes:

(1) Nassau Capital Real Estate Partners III L.P. is interested in approximately 40% of the registered capital of Dry Bulk Shipping (BVI) Limited and is deemed or taken to be interested in these shares and to hold this short position (which are beneficially owned by and attributable to Dry Bulk Shipping (BVI) Limited respectively) for the purposes of the SFO.

(2) Furman Selz Investors II L.P. is interested in approximately 88.2% of the registered capital of IDB Carriers (BVI) Limited, and FS Private Investments LLC is the manager of Furman Selz Investors II L.P. with power to control the exercise of voting rights attached to these Shares. Therefore Furman Selz Investors II L.P. and FS Private Investors LLC are deemed or taken to be interested in these shares and to hold this short position (which are beneficially owned by and attributable to IDB Carriers (BVI) Limited respectively) for the purposes of the SFO. FS Private Investments LLC does business under the name of Jefferies Capital Partners.

(3) Mr. Luikart is a managing member of FS Private Investments LLC, which is the manager of each of Furman Selz Investors II L.P., FS Employee Investors LLC and FS Parallel Fund LP, being the members of IDB Carriers (BVI) Limited. Under these arrangements, Mr. Luikart is entitled, as a managing member of FS Private Investments LLC, to exercise or control the exercise

of rights conferred by the holding of all the shares in IDB Carriers (BVI) Limited. Accordingly, Mr. Luikart is taken to be interested in these shares and to hold this short position (which are beneficially owned by and attributable to IDB Carriers (BVI) Limited respectively) for the purposes 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 transactions

During the year ended 31 December 2004, the Group had the following connected transactions:

(i) *Insurance services from Sun Hing Insurance Brokers Limited ("Sun Hing")*

Sun Hing has been appointed as a provider of insurance services to the Group on a non-exclusive basis, pursuant to an agreement dated 4 June 2004 which expires on 31 December 2006. Sun Hing has provided such services in connection with arranging insurance policies in respect of vessels owned, chartered or managed by the Group. Sun Hing has also provided insurance services in respect of the general affairs of the Group. Such services were provided to the Group on commercial terms and in the ordinary course of Sun Hing's business.

Sun Hing is approximately 35% owned indirectly by, and therefore an associate (as defined under the Listing Rules) of, Mr. Simon K.Y. Lee, one of the Directors of the Company.

For the year ended 31 December 2004, premiums payable to Sun Hing amounted to US$0.2 million which is within the approved cap of US$0.4 million as disclosed in the Company's prospectus dated 30 June 2004 (the "Prospectus").

(ii) *Technical management services from A.M. Nomikos Transworld Maritime Agencies S.A. ("Nomikos")*

China Line Shipping Limited ("China Line") (a jointly-controlled entity of the Group) entered into a technical management agreement dated 11 January 2001 with Nomikos for the provision by Nomikos, as agents for and on behalf of China Line, of crew management, technical management, insurance arrangements, accounting services and supply of provisions in respect of a vessel of China Line named m.v. Captain Corelli. Such agreement (as amended, the "Technical Management Agreement") was amended by a supplemental agreement dated 18 June 2004, pursuant to which it will terminate on 31 December 2006.

The management fee payable under the Technical Management Agreement is subject to annual review on 11 January. The fees charged by Nomikos are on Nomikos' ordinary trading terms. All expense incurred by Nomikos thereunder on behalf of China Line are payable by China Line to Nomikos.

Nomikos, on the basis of the Company's understanding that it is connected with Myrtos Inc., a substantial shareholder in a company which is a jointly controlled entity of the Company (albeit treated by the Listing Rules as one of the Company's subsidiaries), namely Pacific Basin Bulker (No.103) Corporation, which in turn wholly owns China Shipping Limited;

The management fee payable under the Technical Management Agreement for the period from 1 April 2004 to 31 December 2004 amounted to US$0.1 million which is within the approved cap of US$0.1 million as disclosed in the Prospectus.

(iii) *Commercial management services to Redcliffe Shipping Limited ("Redcliffe")*

Redcliffe, the owner of m.v. Derwent (the "Vessel"), entered into a commercial management agreement with Pacific Basin Shipping (UK) Limited ("PBSUK") (a wholly owned subsidiary of the Company) effective as of 23 June 2003 for the provision by PBSUK of commercial management services in respect of the Vessel. Such agreement (as supplemented) expires on 31 December 2006, may be terminated on one month's notice by Redcliffe to PBSUK or following the sale of the Vessel, and provides for a monthly management fee and a commission on such a sale payable to PBSUK. Such management fees and commissions are in accordance with PBSUK's ordinary trading terms and in the ordinary course of its business.

Redcliffe is owned indirectly as to one-third by each of, and therefore an associate (as defined under the Listing Rules) of, Mr. John Davis and Mr. Anthony Foster, both being ex-directors of PBSUK, which is a subsidiary of the Company.

The Vessel was sold and delivered in September 2004 and the fees payable by Redcliffe to PBSUK amounted to US$0.04 million which is within the approved cap of US$0.2 million as disclosed in the Prospectus.

(iv) *Information technology services and equipment from Clear Future Technologies Limited ("CFT")*

CFT has been appointed as a provider of information technology services and equipment to Pacific Basin Shipping (HK) Limited, a subsidiary of the Group, on a non-exclusive basis and on normal commercial terms pursuant to a master consulting services agreement dated 10 June 2004 and which expires on 31 December 2006.

CFT is controlled indirectly as to approximately 70% by, and therefore an associate (as defined under the Listing Rules) of, Mr. Simon K.Y. Lee, one of the Company's Directors.

For the period from 1 April 2004 to 31 December 2004, fees payable by the Group to CFT amounted to US$6,000 which is within the approved cap of US$0.1 million as disclosed in the Prospectus.

(v) *Administrative services to Epic Shipping (BVI) Limited ("Epic")*

The Company entered into a services agreement with Epic dated 17 June 2004 and having effect from 1 April 2004 under which the Company agrees to provide accounting and treasury, systems support and other administrative services to Epic and its subsidiaries after the listing date until 31 December 2004.

Epic is considered a connected person in accordance with the Listing Rules since its shareholders are substantially the same as those of Pembroke Shipping Limited ("Pembroke") (a substantial shareholder of the Company) and the same shareholders are members of the Controlling Group. Epic is the owner of the excluded activities of Pembroke, comprising the ownership and management of oil product tankers, a UK-based ship management business and ownership interests in two small newbuilding bulk carriers as disclosed in the Prospectus.

The above services agreement was terminated on 31 December 2004 and fees payable by Epic for the period from 1 April 2004 to 31 December 2004 amounted to US$0.1 million which is within the approved cap of US$0.5 million as disclosed in the Prospectus.

Pursuant to the waiver letter issued by the Hong Kong Stock Exchange in respect of the above transactions stated in (i), (iii) and (v), these connected transactions could be exempted if certain conditions are fulfilled such as the confirmation from independent non-executive directors that these transactions satisfy the following conditions:

(a) the continuing connected transactions disclosed above were entered into by the Group in the ordinary and usual course of business;

(b) the continuing connected transactions have been entered into on an arm's length basis and conducted either on normal commercial terms, or where there is no available comparison, on terms no less favourable to the Group than those available to or from independent third parties; and

(c) the continuing connected transactions have been entered into in accordance with the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent non-executive directors of the Company are satisfied that the above conditions had been fulfilled in 2004.

Compliance with the Code of Best Practice of the Listing Rules

Throughout the year, the Company was in compliance with the Code of Best Practice as set out in the Appendix 14 of the Listing Rules. Please also refer to the Corporate Governance section.

Audit Committee

Details of the Audit Committee are set out in the Corporate Governance section.

Subsequent events

Details of significant subsequent events are set out in Note 32 to the accounts.

Auditors

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

Public Float

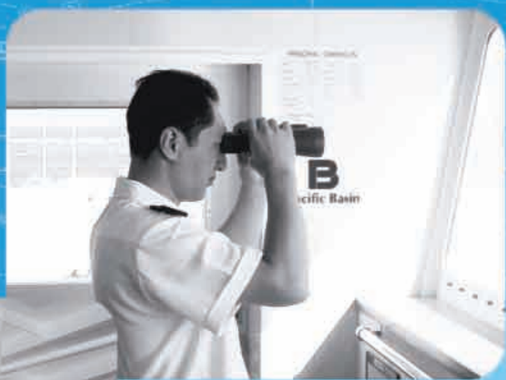
On the basis of information that is publicly available to the Company within the knowledge of the Directors as at the date of this report, the Company has complied with the public float requirements of the Listing Rules.

By Order of the Board

Andrew T. Broomhead
Company Secretary

Hong Kong, 1 March 2005

Pacific Basin Shipping Limited
Annual Report 2004



AUDITORS' REPORT

TO THE SHAREHOLDERS OF PACIFIC BASIN SHIPPING LIMITED
(incorporated in Bermuda with limited liability)

We have audited the accounts on pages 55 to 97 which have been prepared in accordance with accounting principles generally accepted in Hong Kong.

Respective responsibilities of directors and auditors

The directors of the Company are responsible for the preparation of accounts which give a true and fair view. In preparing accounts which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently.

It is our responsibility to form an independent opinion, based on our audit, on those accounts 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.

Basis of opinion

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounts. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the accounts, and of whether the accounting policies are appropriate to the circumstances of the Company and the Group, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the accounts are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounts. We believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion the accounts give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the profit and cash flows of the Group for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 1 March 2005

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2004

	Note	**2004 US$'000**	2003 US$'000
Turnover	3	**234,266**	54,188
Bunkers, port disbursements and other charges	3	**(45,383)**	—
Turnover on a time charter equivalent basis	3	**188,883**	54,188
Other revenues	3	**431**	2
Direct costs	4	**(70,715)**	(26,214)
General and administrative expenses		**(6,881)**	(469)
Operating profit	5	**111,718**	27,507
Finance costs	6	**(10,215)**	(4,821)
Share of loss of an associated company		**(10)**	—
Share of profits of jointly controlled entities		**2,504**	—
Profit before taxation		**103,997**	22,686
Taxation	7	**(485)**	—
Profit attributable to shareholders	8	**103,512**	22,686
Dividends	9	**88,797**	13,900
Basic earnings per share	10(a)	**US9.59 cents**	US2.85 cents
Diluted earnings per share	10(b)	**US9.55 cents**	N/A

CONSOLIDATED BALANCE SHEET

As at 31 December 2004

	Note	2004 US$'000	2003 US$'000
Non-current assets			
Fixed assets	13	**544,194**	200,777
Goodwill	14	**25,256**	—
Interests in jointly controlled entities	16(a)	**10,657**	—
Interest in an associated company	17	**1**	—
Investment securities	18	**200**	—
Deferred loan arrangement fees	19	**855**	633
Restricted bank deposits	20	**4,150**	2,400
		585,313	203,810
Current assets			
Inventories	21	**6,564**	528
Trade receivables	22	**7,655**	—
Amounts due from related companies	23	**118**	2,252
Deposits, prepayments and other receivables		**10,515**	368
Bank deposits and cash			
— pledged/restricted	24	**1,910**	—
— unpledged		**41,651**	5,744
		68,413	8,892
Current liabilities			
Trade payables	25	**3,730**	—
Accruals and other payables		**31,585**	3,655
Amounts due to related companies	23	**—**	69
Amounts due to the then shareholders	23	**—**	24,231
Current portion of long-term bank loans	26	**36,133**	10,869
Dividend payable		**12,995**	—
Taxation payable		**1,801**	—
		86,244	38,824
Net current liabilities		**(17,831)**	(29,932)
Total assets less current liabilities		**567,482**	173,878
Financed by:			
Share capital	27	**126,701**	79,502
Retained profits			
Proposed dividend	28	**25,990**	—
Others	28	**30,703**	15,988
Other reserves	28	**49,242**	(56,606)
Shareholders' funds		**232,636**	38,884
Non-current liabilities			
Long-term bank loans	26	**334,846**	134,994
		567,482	173,878

Christopher R. Buttery
Director

Mark M. Harris
Director

BALANCE SHEET OF THE COMPANY

As at 31 December 2004

	Note	**2004*** **US$'000**
Non-current assets		
Investments in subsidiaries	15	**232,019**
Current assets		
Prepayments		**89**
Amounts due from subsidiaries	23	**39,750**
Bank deposits and cash		**106**
		39,945
Current liabilities		
Accruals and other payables		**96**
Dividend payable		**12,995**
		13,091
Net current assets		**26,854**
Total assets less current liabilities		**258,873**
Financed by:		
Share capital	27	**126,701**
Share premium	28	**105,794**
Retained profits		
Proposed dividend	28	**25,990**
Others	28	**388**
Shareholders' funds		**258,873**

Christopher R. Buttery
Director

Mark M. Harris
Director

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2004

	Note	2004 *US$'000*	2003 *US$'000*
Total equity at beginning of the year		**38,884**	30,098
Issue of shares for acquisition of subsidiaries	27, 28	**81,313**	—
Issue of shares upon initial public offering, net of issuing expenses	27, 28	**71,680**	—
Exchange differences arising on translation of the accounts of foreign subsidiaries	28	**54**	—
Profit attributable to shareholders	28	**103,512**	22,686
Dividends	28	**(62,807)**	(13,900)
Total equity at end of the year		**232,636**	38,884

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2004

	Note	**2004 US$'000**	2003 US$'000
Operating activities			
Cash generated from operations	29(a)	**126,515**	35,777
Hong Kong profits tax paid		**(688)**	—
Overseas taxation paid		**(91)**	—
Net cash inflow from operating activities		**125,736**	35,777
Investing activities			
Purchase of fixed assets		**(269,942)**	(27,138)
Sale of fixed assets		**16**	—
Interest received		**78**	2
Purchase of subsidiaries, net of cash acquired	29(e)	**1,042**	—
Purchase of jointly controlled entities		**(2,202)**	—
Dividend received from jointly controlled entities		**1,831**	—
Dividend received from investment securities		**227**	—
Decrease/(increase) in restricted and pledged bank deposits		**179**	(200)
Net cash outflow from investing activities		**(268,771)**	(27,336)
Financing activities			
Proceeds from initial public offering, net of share issuing expenses		**71,680**	—
Repayment of bank loans	29(b)	**(228,038)**	(10,769)
Drawdown of bank loans	29(b)	**417,879**	19,900
(Repayment of)/additional loans from the then shareholders		**(24,231)**	912
Interest and other finance charges paid		**(7,126)**	(4,824)
Dividends paid	29(b)	**(49,812)**	(13,900)
Payment of loan arrangement fees		**(1,410)**	(148)
Net cash inflow/(outflow) from financing activities		**178,942**	(8,829)
Increase/(decrease) in cash and cash equivalents		**35,907**	(388)
Cash and cash equivalents at 1 January		**5,744**	6,132
Cash and cash equivalents at 31 December	29(c)	**41,651**	5,744

1. REORGANISATION AND BASIS OF PREPARATION

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

Pursuant to the transfer of PB Vessels Holding Limited and all its subsidiaries into the Company through an exchange of shares (the "Exchange of Shares"), as detailed in the prospectus of the Company dated 30 June 2004 (the "Prospectus"), which was completed on 30 March 2004, the Company became the holding company of those companies.

The Exchange of Shares is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice ("SSAP") No. 27 "Accounting for group reconstructions" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The accounts of the Group for the year ended 31 December 2004, including comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

Subsequent to the Exchange of Shares, the Company entered into further transactions (the "Further Acquisitions") to complete the group reorganisation (the "Reorganisation") in preparation for the listing of the shares of the Company. These transactions comprise primarily acquisitions of interests in certain vessel holding companies and ship management companies as set out in the Prospectus. The results of these companies are included in the consolidated profit and loss account from the effective date of acquisition, 31 March 2004.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") on 14 July 2004 (the "Listing Date").

The accounts have been prepared under the historical cost conventions in accordance with accounting principles generally accepted in Hong Kong, and comply with accounting standards issued by the HKICPA.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards ("new HKFRSs") which are effective for accounting periods beginning on or after 1 January 2005. The Group was not required to adopt these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs, but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Group accounting

(i) ***Consolidation***

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

2. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(a) Group accounting (continued)

(i) ***Consolidation (continued)***

Subsidiaries are those entities in which the Company, directly or indirectly, controls more than one half of the voting power; has the power to govern the financial and operating policies; to appoint or remove a majority of the members of the board of directors; or to cast a majority of votes at the meetings of the board of directors.

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

In the Company's balance sheet the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividends received and receivable.

(ii) ***Joint ventures***

(a) *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.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill or negative goodwill (net of accumulated amortisation) on acquisition.

(b) *Jointly controlled operations*

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 share being determined in accordance with the contractual arrangement.

In respect of the Group's interests in jointly controlled operations, the consolidated profit and loss account includes the Group's share of expenses that the jointly controlled operations incurred and the Group's share of income earned by the jointly controlled operations.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Group accounting (continued)

(iii) ***Associated company***

An associated company is a company, not being a subsidiary or a joint venture, in which an equity interest is held for the long-term and significant influence is exercised in its management.

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill or negative goodwill (net of accumulated amortisation) on acquisition.

Equity accounting is discontinued when the carrying amount of the investment in an associated company reaches zero, unless the Group has incurred obligations or guaranteed obligations in respect of the associated company.

(iv) ***Gain or loss on disposal***

The gain or loss on the disposal of a subsidiary, a jointly controlled entity or an associated company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill and any related accumulated foreign currency translation reserve.

(b) Fixed assets

(i) ***Vessels under construction***

Vessels under construction are stated at cost and are not depreciated.

(ii) ***Vessels***

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.

Depreciation of vessels is calculated to write off their cost less accumulated impairment losses on a straight-line basis over their estimated useful lives of 25 years from the date of first registration, after allowing for their estimated scrap value.

2. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(b) Fixed assets (continued)

(iii) ***Other fixed assets***

Other fixed assets, comprising motor vehicles, leasehold improvements and furniture, fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The estimated useful lives are summarised as follows:

Motor vehicles	4 years
Leasehold improvements	5 to 6 years or the remaining period of the lease, whichever is shorter
Furniture, fixtures and equipment	4 to 5 years

Major costs incurred in restoring fixed assets to their normal working condition are charged to the consolidated profit and loss account. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) ***Impairment and gain or loss on sale***

At each balance sheet date, both internal and external sources of information are considered to assess whether there is any indication that the carrying values of fixed assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated and where relevant, an impairment loss is recognised to reduce the asset to its recoverable amount. Such impairment losses are recognised in the profit and loss account.

The gain or loss on disposal of fixed assets is the difference between the net sales proceeds and the carrying amount of the relevant asset, and is recognised in the profit and loss account.

(v) ***Capitalisation of costs***

All direct costs relating to the construction of vessels, including finance costs on related borrowed funds during the construction period, are capitalised as cost of fixed assets.

(c) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, jointly controlled entity and associated company at the date of acquisition.

Goodwill on acquisitions is amortised using the straight-line method over 15 years.

Where an indication of impairment exists, the carrying amount of goodwill is assessed and written down immediately to its recoverable amount and the impairment loss is charged to the consolidated profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Operating leases

(i) ***Leases — where the Group is the lessor***

When the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(b)(ii) above. Revenue arising from assets leased out under operating leases is recognised on a time proportion basis.

(ii) ***Leases — where the Group is the lessee***

Leases where substantially all the risks and rewards of ownership of assets remain with the leasing company are accounted for as operating leases. Payments made under operating leases net of any incentives received from the leasing company are charged to the profit and loss account on a straight-line basis over the lease periods.

(e) Investment securities

Investment securities are stated at cost less any provision for impairment losses.

The carrying amounts of individual investments are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than temporary has occurred, the carrying amount of such securities will be reduced to its fair value. The impairment loss is recognised as an expense in the profit and loss account. This impairment loss is written back to profit and loss account when the circumstances and events that led to the write-downs or write-offs cease to exist and there is persuasive evidence that the new circumstances and events will persist for the foreseeable future.

(f) Inventories

Inventories mainly comprise bunkers on board of vessels, lubricating oil and marine products. Inventories are stated at the lower of cost and net realisable value. Costs are calculated on first-in first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Provision for inventories is made against specific items when they are considered to be slow moving or obsolete.

(g) Trade receivables

Provisions are made against freight and charter-hire receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provisions.

2. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(i) 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. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Employee benefits

(i) ***Employee leave entitlements***

Employee entitlements to annual leave are recognised when they accrue to employees. A provision is made for the estimated liability for annual leave as a result of services rendered by employees up to the balance sheet date.

Employee entitlements to sick leave and maternity leave are not recognised until the time of leave.

(ii) ***Bonus***

Provisions for bonuses are recognised where there is a contractual obligation and the amount can be estimated reliably.

(iii) ***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% to 10% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred. 5% of relevant income vest immediately upon the completion of service in the relevant service period, while the remaining portion vest in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Employee benefits (continued)

(iii) ***Retirement benefit obligations (continued)***

Other defined contribution schemes

The Group also operates a number of defined contribution retirement schemes outside Hong Kong. The assets of these schemes are generally held in separate administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant Group companies, taking into account the contribution rates according to the statutory requirements.

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 vesting fully in the contributions.

(iv) ***Equity compensation benefits***

Share options are granted to directors and employees. No compensation cost is recognised in the profit and loss account in connection with the share options being granted. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium accounts.

(k) Deferred taxation

Deferred taxation 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 accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred 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 taxation is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associated company, except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

(l) Contingent liabilities and contingent assets

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.

2. **PRINCIPAL ACCOUNTING POLICIES (continued)**

(l) Contingent liabilities and contingent assets (continued)

A contingent liability is not recognised but is disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

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 events not wholly within the control of the Group.

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

(m) Net revenue recognition

(i) ***Ship chartering***

The Group generates revenue from shipping activities, the principal source of which is derived from the International Handybulk Carriers ("IHC") pool.

Revenues from the IHC pool are based on the number of pool points attributable to the Group's owned and chartered-in vessels participating in the pool.

IHC pool revenues are derived from a combination of voyage charter, time charter and contracts of affreightment and are recognised on an accrual basis.

(ii) ***Ship management***

The Group also generates revenues from ship management services. Such revenues are recognised when the services are rendered.

(iii) ***Others***

Interest income is recognised on a time proportion basis, taking into account the principal amounts outstanding and the interest rates applicable.

(n) Vessel operating and drydocking costs

Vessel operating and drydocking costs are accounted for on an accrual basis.

(o) Translation of foreign currencies

Transactions in foreign currencies are translated at exchange rates ruling at the transaction dates. Monetary assets and liabilities expressed in foreign currencies at the balance sheet date are translated at rates of exchange ruling at the balance sheet date. Exchange differences arising in these cases are dealt with in the consolidated profit and loss account.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Translation of foreign currencies (continued)

The balance sheets of subsidiaries, jointly controlled entities and associated company expressed in foreign currencies are translated at the rates of exchange ruling at the balance sheet date whilst the profit and loss accounts are translated at average rates. Exchange differences are dealt with as movements in reserves.

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

Loan arrangement fees are deferred and amortised to the profit and loss account over the term of the loan.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Segment reporting

In accordance with the Group's internal financial reporting, the Group has determined that business segments are presented as the primary reporting format and geographical segments as the secondary reporting format.

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in an associated company and jointly controlled entities. Segment liabilities comprise operating liabilities and exclude items such as taxation and dividend payable. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions of subsidiaries.

In respect of geographical segment reporting, the nature of the provision of ship chartering services and ship management services, which are carried out internationally, and the way in which costs are allocated precludes a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment results are not presented.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

The Group is principally engaged in the provision of ship chartering services and ship management services. Revenues recognised during the year are as follows:

	2004 **US$'000**	2003 US$'000
Turnover		
Freight and charter-hire	**224,762**	54,188
Ship management income	**9,504**	—
	234,266	54,188
Bunkers, port disbursements and other charges	**(45,383)**	—
Turnover on a time charter equivalent basis	**188,883**	54,188
Other revenues		
Interest income	**78**	2
Dividend income from investment securities	**227**	—
Other income	**126**	—
	431	2
Total revenues	**189,314**	54,190

The acquisition of the management companies under the Further Acquisitions brought the IHC pool under the control of the Group from 31 March 2004. Accordingly the Group's turnover, subsequent to the Further Acquisition, represents its portion of income in the IHC pool and is accounted for by showing its share of gross income, less share of voyage related costs in arriving at its turnover on a time charter equivalent ("TCE") basis. The comparative figure presented represents net income from the IHC pool which is equivalent to the TCE earnings.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

(a) Primary reporting format — business segments

An analysis of the Group's revenues, results, assets, liabilities and other information for the year by business segment is as follows:

	Ship chartering 2004 *US$'000*	Ship management 2004 *US$'000*	Inter-segment elimination 2004 *US$'000*	Group 2004 *US$'000*
Revenue				
Turnover	224,762	22,486	(12,982)	234,266
Bunkers, port disbursements and other charges	(45,383)	—	—	(45,383)
Turnover on a time charter equivalent basis	179,379	22,486	(12,982)	188,883
Results				
Segment results	108,812	2,906	—	111,718
Finance costs	(10,215)	—	—	(10,215)
Share of loss of an associated company	—	(10)	—	(10)
Share of profits of jointly controlled entities	2,504	—	—	2,504
Profit before taxation				103,997
Taxation				(485)
Profit attributable to shareholders				103,512
Assets				
Segment assets	591,214	51,854	—	643,068
Interests in jointly controlled entities	10,155	502	—	10,657
Interest in an associated company	—	1	—	1
Total assets				653,726
Liabilities				
Segment liabilities	384,204	22,090	—	406,294
Unallocated liabilities				14,796
Total liabilities				421,090
Other information				
Capital expenditure	358,004	1,365	—	359,369
Depreciation	15,474	394	—	15,868
Amortisation of goodwill	—	1,329	—	1,329
Other non-cash expenses	1,188	—	—	1,188

No business segment analysis is presented for the year ended 31 December 2003 as all of the Group's revenues, expenses, assets, liabilities and capital expenditure were primarily attributable to the provision of ship chartering services.

3. **TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**

(b) **Secondary reporting format — geographical segments**

The directors consider that the nature of the provision of ship chartering services and ship management services, which are carried out internationally, and the way in which costs are allocated precludes a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment results are not presented.

4. **DIRECT COSTS**

	2004	2003
	US$'000	*US$'000*
Charter-hire expenses on vessels	**18,659**	5,235
Vessel operating costs	**19,279**	12,460
Drydocking expenses	**4,524**	629
Depreciation charge on vessels	**15,474**	7,890
Shore-based overheads	**11,017**	—
Cost of marine products sold	**1,762**	—
	70,715	26,214

Vessel operating costs comprise all technical expenses that are incurred in operating a vessel. These include crew expenses, cost of stores and spares parts supplied, repair and maintenance expenses, insurances and other miscellaneous running costs.

Drydocking involves the removal of the vessel from the water for inspection, maintenance and/or repair of submerged parts. The Group's vessels are required to undergo a planned drydock approximately every 30 to 36 months depending on both the condition of the vessel and statutory requirements.

5. **OPERATING PROFIT**

Operating profit is stated after charging the following:

	2004	2003
	US$'000	*US$'000*
Auditors' remuneration	**252**	65
Amortisation of goodwill	**1,329**	—
Depreciation		
— vessels under operating leases	**1,023**	—
— other fixed assets	**14,845**	—
Net exchange losses	**74**	—
Operating lease expenses on		
— vessels	**18,659**	5,235
— land and buildings	**585**	—
Staff costs, including directors' emoluments *(Note 11)*	**11,704**	—

6. FINANCE COSTS

	2004	2003
	US$'000	*US$'000*
Interest on bank loans not wholly repayable within five years	**7,756**	4,756
Net cost of swap contracts	**914**	—
Write-off of loan arrangement fees *(Note 19)*	**1,092**	—
Amortisation of loan arrangement fees *(Note 19)*	**96**	65
Other finance charges	**357**	—
	10,215	4,821

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year. In 2003, no Hong Kong profits tax was provided as the Group had no estimated assessable profit.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated profit and loss account represents:

	2004	2003
	US$'000	*US$'000*
Company and subsidiaries:		
Current taxation		
Hong Kong profits tax	**406**	—
Overseas tax	**79**	—
	485	—

Below is a reconciliation between taxation in the consolidated profit and loss account and the aggregate tax at the domestic rates applicable to profits in the respective territories concerned.

	2004	2003
	US$'000	*US$'000*
Profit before taxation	**103,997**	22,686
Aggregate tax at the domestic rates applicable to profits in the respective territories concerned	**813**	—
Income not subject to taxation	**(549)**	—
Expenses not deductible for taxation purposes	**221**	—
Taxation charge	**485**	—

There was no material unprovided deferred taxation for the year and at the year end. (2003: nil)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company for the period from 10 March 2004 (date of incorporation) to 31 December 2004 to the extent of US$57,720,000.

9. DIVIDENDS

	2004	2003
	US$'000	*US$'000*
Dividends paid by companies now comprising the Group to the then shareholders *(Note (a))*	**31,465**	13,900
Interim, paid, of US$0.02 (2003: US$Nil) per share *(Note (b))*	**18,347**	—
Interim, declared, of HK$0.08 (equivalent to US$0.01) (2003: US$Nil) per share *(Note (c))*	**12,995**	—
Final, proposed, of HK$0.16 (equivalent to US$0.02) (2003: US$Nil) per share *(Note (d))*	**25,990**	—
	88,797	13,900

Notes:

(a) The dividend rates and the number of shares ranking for the dividend in respect of the dividends declared by companies now comprising the Group under the Exchange of Shares as set out in Note 1 to the then shareholders before the Reorganisation are not presented as such information is not considered meaningful for the purpose of these accounts.

(b) On 14 July 2004, the directors declared an interim dividend of US$0.02 per share to the Company's shareholders on the morning of the Listing Date, not including the public shareholders.

(c) On 13 December 2004, the directors declared an interim dividend of HK$0.08 (equivalent to US$0.01) per share, which was paid on 6 January 2005.

(d) On 1 March 2005, the directors proposed a final dividend of HK$0.16 (equivalent to US$0.02) per share for the year ended 31 December 2004. This dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of US$103,512,000 (2003: US$22,686,000) and the weighted average number of 1,079,318,992 (2003: 795,016,897) shares in issue, assuming that the 795,016,897 shares issued pursuant to the Exchange of Shares had been in issue throughout both years.

10. EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of the diluted earnings per share for the year ended 31 December 2004 is based on the weighted average number of 1,079,318,992 shares in issue during the year plus the weighted average of 4,924,795 shares deemed to have been issued at no consideration assuming all outstanding share options had been exercised.

No information in respect of diluted earnings per share is presented for the year ended 31 December 2003 as the Company had no potential dilutive shares.

11. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

	2004	2003
	US$'000	*US$'000*
Wages and salaries	**11,458**	—
Retirement benefit costs — defined contribution retirement schemes	**246**	—
	11,704	—

Total staff costs do not include the amounts of benefit in kind in respect of the share options granted to the Company's directors and the Group's employees. Details of the Company's share options are set out in Note 27(k).

No forfeited contributions were available during the year to reduce contributions payable by the Group (2003: US$Nil).

Contributions totalling US$27,000 (2003: US$Nil) were payable to the defined contribution retirement schemes at year end.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

	2004	2003
	US$'000	*US$'000*
Fees	**124**	—
Other emoluments		
Salaries, allowances and benefits in kind	**1,008**	—
Bonus	**1,008**	—
Retirement benefit costs	**3**	—
	2,143	—

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(a) Directors' emoluments (continued)

Fees paid to non-executive directors were US$124,000 (2003: US$Nil).

During the year, 14,400,000 share options were granted to the directors under the share option scheme approved by the shareholders on 17 June 2004 ("Share Option Scheme"). The market value per share at the date of grant is HK$2.50. Refer to Note 27(k) to the accounts for details of options granted during the year.

The emoluments of the directors fell into the following bands:

	Number of directors	
	2004	2003
Emolument bands		
US$Nil–US$128,205 (HK$Nil–HK$1,000,000)	**6**	—
US$576,923–US$641,026 (HK$4,500,001–HK$5,000,000)	**2**	—
US$769,231–US$833,333 (HK$6,000,001–HK$6,500,000)	**1**	—
	9	—

During the year, none of the directors waived their directors' fees (2003: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: Nil) individuals during the year are as follows:

	2004	2003
	US$'000	*US$'000*
Salaries, allowances and benefits in kind	**429**	—
Bonus	**431**	—
Retirement benefit costs	**2**	—
	862	—

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals (continued)

The emoluments of the remaining two highest paid employees fell within the following bands:

	Number of individuals	
	2004	2003
Emolument bands		
US$384,616–US$448,718 (HK$3,000,001–HK$3,500,000)	**1**	—
US$448,719–US$512,821 (HK$3,500,001–HK$4,000,000)	**1**	—
	2	—

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as inducement to join or upon joining the Group or as compensation for loss of office (2003: US$Nil).

13. FIXED ASSETS

US$'000	Group					
	Vessels	Vessels under construction	Leasehold improvements	Furniture, fixtures and equipment	Motor vehicles	Total
Cost:						
At 1 January 2004	218,013	3,075	—	—	—	221,088
Additions	241,128	28,145	22	577	70	269,942
Acquisition of subsidiaries *(Note 29(e))*	64,500	24,231	193	503	—	89,427
Reclassification	35,700	(35,700)	—	—	—	—
Disposals	—	—	—	(88)	(12)	(100)
At 31 December 2004	559,341	19,751	215	992	58	580,357
Accumulated depreciation:						
At 1 January 2004	20,311	—	—	—	—	20,311
Charge for the year	15,474	—	192	202	—	15,868
Disposals	—	—	—	(16)	—	(16)
At 31 December 2004	35,785	—	192	186	—	36,163
Net book value:						
At 31 December 2004	523,556	19,751	23	806	58	544,194
At 31 December 2003	197,702	3,075	—	—	—	200,777

13. FIXED ASSETS (continued)

At 31 December 2004, vessels and vessels under construction of net book value totalling US$533,298,000 (2003: US$197,702,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 26(i)).

As at 31 December 2004, the aggregate cost and accumulated depreciation of the vessels leased out by the Group under time charter agreements amounted to US$57,297,000 (2003: US$Nil) and US$477,000 (2003: US$Nil) respectively.

14. GOODWILL

	Group
	US$'000
Cost	
At 1 January 2004	—
Acquisition of subsidiaries *(Note 29(e))*	26,585
At 31 December 2004	26,585
Accumulated amortisation	
At 1 January 2004	—
Amortisation *(Note 5)*	1,329
At 31 December 2004	1,329
Net book value	
At 31 December 2004	25,256
At 31 December 2003	—

15. INVESTMENTS IN SUBSIDIARIES

	Company	
	2004	2003
	US$'000	*US$'000*
Unlisted investments, at cost	**130,762**	—
Loans advanced to subsidiaries	**101,257**	—
	232,019	—

The loans advanced to subsidiaries are unsecured, interest free and are not repayable within one year.

Details of principal subsidiaries of the Company as at 31 December 2004 are set out in Note 33.

16. INTERESTS IN JOINT VENTURES

(a) Jointly controlled entities

	Group	
	2004	2003
	US$'000	*US$'000*
Share of net assets	**10,157**	—
Loan to a jointly controlled entity	**500**	—
	10,657	—

The loan to a jointly controlled entity is unsecured, non-interest bearing and not repayable within one year.

Details of the jointly controlled entities of the Group at 31 December 2004 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
Pacific Basin Logistics Limited (formerly IHC Logistics Limited)	The British Virgin Islands/ Hong Kong	4 shares of US$1 each	50%/50%/50%	Vessels chartering
Pacific Basin Bulker (No. 103) Corporation	Republic of Liberia	200 class 'B' shares of US$21,917.81 each	63.5%/50%/ 63.5%	Investment holding
China Line Shipping Limited	Hong Kong/ international	2 shares of HK$1 each	63.5%/50%/ 63.5%	Vessel owning and chartering
Oriental Maritime Shipping Limited	The British Virgin Islands	10 shares of US$1 each	50%/50%/50%	Investment holding
Oriental Maritime Chartering Limited	The British Virgin Islands/The People's Republic of China ("PRC")	10 shares of US$1 each	50%/50%/50%	Vessel chartering
Claire Shipping Limited	Hong Kong/ international	1 share of HK$1	50%/50%/50%	Vessel owning and chartering

All jointly controlled entities are held indirectly by the Company.

16. INTERESTS IN JOINT VENTURES (continued)

(b) Jointly controlled operations

The aggregate amounts of profit and loss recognised in respect of the Group's interests in the jointly controlled operations are as follows:

	Group	
	2004	2003
	US$'000	*US$'000*
Charter-hire income included in turnover	**4,797**	4,015
Charter-hire expenses included in direct costs	**(2,241)**	(2,968)
	2,556	1,047

In 2003, the Group entered into contractual arrangements with Pacific Basin Chartering Limited for sub-chartering three vessels. Following the Group's Reorganisation on 31 March 2004, Pacific Basin Chartering Limited became a subsidiary of the Group and the results of the three vessels were taken up in full as part of the operating results of the Group. Accordingly, the results attributable to jointly controlled operations as shown above include the Group's share of the results of these vessels up to 30 March 2004 only.

17. INTEREST IN AN ASSOCIATED COMPANY

	Group	
	2004	2003
	US$'000	*US$'000*
Share of net assets	**1**	—

Details of the associated company at 31 December 2004 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Attributable equity interests indirectly held	Principal activity
The London Shipping Consultancy Limited	The United Kingdom	100 shares of GBP1 each	49%	Provision of ship consultancy services

18. INVESTMENT SECURITIES

	Group	
	2004	2003
	US$'000	*US$'000*
Unlisted equity securities, at cost	**200**	—

19. DEFERRED LOAN ARRANGEMENT FEES

	Group	
	2004	2003
	US$'000	*US$'000*
At 1 January	**633**	550
Additions	**1,410**	148
Amortisation *(Note 6)*	**(96)**	(65)
Write-off *(Note 6)*	**(1,092)**	—
At 31 December	**855**	633

20. RESTRICTED BANK DEPOSITS

Bank deposits are pledged to lending banks as securities for loans granted to the Group (*Note 26*(i)).

21. INVENTORIES

	Group	
	2004	2003
	US$'000	*US$'000*
Bunkers	**5,078**	—
Lubricating oil	**1,462**	528
Marine products	**24**	—
	6,564	528

At 31 December 2004, the carrying amount of inventories that are stated at net realisable value amounted to US$24,000 (2003: US$Nil).

22. TRADE RECEIVABLES

At 31 December 2004, the ageing analysis of trade receivables is as follows:

	Group	
	2004	2003
	US$'000	*US$'000*
Less than 30 days	**4,717**	—
31–60 days	**1,978**	—
61–90 days	**347**	—
Over 90 days	**613**	—
	7,655	—

No credit terms are normally given to customers. However, final settlement dates are subject to the finalisation of the calculation of balances due.

23. AMOUNTS DUE FROM/TO RELATED COMPANIES, AMOUNTS DUE TO THE THEN SHAREHOLDERS AND AMOUNTS DUE FROM SUBSIDIARIES

The amounts are unsecured, interest free and have no fixed terms of repayment.

24. PLEDGED/RESTRICTED BANK DEPOSITS

	Group	
	2004	2003
	US$'000	*US$'000*
Pledged bank deposits in connection with forward exchange facility *(note a)*	**130**	—
Restricted deposits *(note b)*	**1,780**	—
	1,910	—

(a) The amount was held as security with a bank in connection with a forward exchange facility line of US$1,000,000 granted to the Group.

(b) The amounts were retained by certain banks in relation to the loans repayment.

25. TRADE PAYABLES

At 31 December 2004, the ageing analysis of trade payables is as follows:

	Group	
	2004	2003
	US$'000	*US$'000*
Less than 30 days	**2,225**	—
31–60 days	**346**	—
61–90 days	**392**	—
Over 90 days	**767**	—
	3,730	—

26. LONG-TERM BANK LOANS

	Group	
	2004	2003
	US$'000	*US$'000*
Secured bank loans not wholly repayable within five years	**370,979**	145,863
Current portion of long-term bank loans	**(36,133)**	(10,869)
	334,846	134,994

The bank loans are secured, inter alia, by the following:

(i) Mortgages over all the Group's vessels and a vessel under construction *(Note 13)* and certain bank deposits *(Note 20).*

(ii) Assignments of earnings, insurances and requisition compensations in respect of the vessels.

(iii) Charges over the shares of certain subsidiaries *(Note 33).*

At 31 December 2004, the Group's bank loans were repayable as follows:

	Group	
	2004	2003
	US$'000	*US$'000*
Within one year	**36,133**	10,869
In the second year	**33,634**	10,869
In the third to fifth year	**98,207**	32,604
After the fifth year	**203,005**	91,521
	370,979	145,863

27. SHARE CAPITAL

Authorised share capital

		No. of shares of US$0.10 each					
	Note	**Class A**	**Class B**	**Class C**	**Ordinary shares**	**Total**	*US$'000*
Upon incorporation	(a)	—	—	—	120,000	120,000	12
Conversion of shares	(b)	53,333.40	63,999.96	2,666.64	(120,000)	—	—
Increase in share capital on 15 March 2004	(c)	533,280,666.60	639,935,600.04	26,663,733.36	—	1,199,880,000	119,988
Increase in share capital on 1 April 2004	(d)	1,066,668,000.00	1,279,999,200.00	53,332,800.00	—	2,400,000,000	240,000
Conversion of shares on 14 July 2004	(h)	(1,600,002,000.00)	(1,919,998,800.00)	(79,999,200.00)	3,600,000,000	—	—
At 31 December 2004		—	—	—	3,600,000,000	3,600,000,000	360,000

Issued share capital

		No. of shares of US$0.10 each					
	Note	**Class A**	**Class B**	**Class C**	**Ordinary shares**	**Total**	*US$'000*
Allotted and issued nil paid	(e)	53,333.40	63,999.96	2,666.64	—	120,000	—
Issue of shares upon the Exchange of Shares	(f)	353,341,281.00	424,008,738.00	17,666,881.00	—	795,016,900	79,502
Repurchase of shares	(g)	(53,329.40)	(63,990.96)	(2,682.64)	—	(120,003)	—
Conversion of shares on 14 July 2004	(h)	(353,341,285.00)	(424,008,747.00)	(17,666,865.00)	795,016,897	—	—
Issue of shares for acquisition of subsidiaries	(i)	—	—	—	221,993,712	221,993,712	22,199
Issue of shares upon initial public offering	(j)	—	—	—	250,000,000	250,000,000	25,000
At 31 December 2004		—	—	—	1,267,010,609	1,267,010,609	126,701

Notes:

(a) The Company was incorporated on 10 March 2004 with an authorised share capital of US$12,000 divided into shares of US$0.10 each.

(b) Pursuant to a statutory meeting of members of the Company held on 15 March 2004, the Company amended its bye-laws and the authorised share capital of the Company was divided into 53,333.40 Class A shares, 63,999.96 Class B shares and 2,666.64 Class C shares. All shares have the same rights except that:

(i) Class A shares have 0.00075 votes per share and collectively carry the right to elect and remove two directors.

(ii) Class B shares have 0.000312 votes per share and collectively carry the right to elect and remove one director.

(iii) Class C shares have 0.015 votes per share and collectively carry the right to elect and remove two directors.

27. SHARE CAPITAL (continued)

(c) Pursuant to a statutory meeting of members of the Company held on 15 March 2004, the Company increased its authorised share capital from US$12,000 to US$120,000,000 by the creation of an additional 1,199,880,000 shares of US$0.10 each.

(d) By a written resolution of the members of the Company passed on 1 April 2004, the Company further increased its authorised share capital from US$120,000,000 to US$360,000,000 by the creation of an additional 2,400,000,000 shares of US$0.10 each.

(e) Pursuant to a meeting of the provisional directors held on 15 March 2004, the Company allotted and issued 53,333.40 Class A shares, 63,999.96 Class B shares and 2,666.64 Class C shares nil paid.

Subsequently, pursuant to a board resolution passed on 11 May 2004, the sum of US$12,000 standing to the credit of the contributed surplus account of the Company was transferred to the capital account to pay up in full all shares issued on 15 March 2004.

(f) Pursuant to a meeting of the directors held on 29 March 2004, the Company issued an aggregate of 795,016,900 shares at par, which were credited as fully paid, comprising 353,341,281 Class A shares, 424,008,738 Class B shares and 17,666,881 Class C shares, in consideration for the Exchange of Shares as set out in Note 1.

(g) Pursuant to a board resolution passed on 11 May 2004, the Company re-purchased 53,329.40 Class A shares, 63,990.96 Class B shares and 2,682.64 Class C shares at purchase price of US$1 in respect of each class of shares by private arrangement.

(h) At 6:01 a.m. on 14 July 2004, all the authorised and issued Class A, B and C shares of the Company were converted into ordinary shares, with a nominal value of US$0.10 each.

(i) Pursuant to the Further Acquisitions as set out in Note 1, effective 31 March 2004, the Company acquired certain subsidiaries in consideration of cash payments and the issue of 221,993,712 shares. Such shares were issued at 6:02 a.m. on 14 July 2004 upon completion of the acquisition.

(j) Through the public offering of the Company, 250,000,000 ordinary shares of US$0.10 each were issued at HK$2.50 each, resulting in a premium of US$0.22 each and proceeds net of share issuing expenses of approximately US$71,680,000 were principally used for the acquisition of vessels.

(k) By a written resolution of the shareholders of the Company dated 17 June 2004, the Share Option Scheme was approved and adopted. Share options were granted to directors, senior management and certain employees on 14 July 2004. The options granted vest over three years. One-third of the options can be exercised one year after the date of grant, one-third two years after the date of grant and one-third three years after the date of grant and all will expire on 13 July 2014. Movements in the number of share options outstanding during the year are as follows:

	Number of options				
	At 1 January 2004	Granted during the year	Exercised during the year	At 31 December 2004	Exercise price
Directors	—	14,400,000	—	14,400,000	HK$2.50
Senior management	—	21,600,000	—	21,600,000	HK$2.50
Employees	—	19,500,000	—	19,500,000	HK$2.50
	—	55,500,000	—	55,500,000	

Note: None of the share options were cancelled during the year.

28. RESERVES

US$'000	Group				
	Share premium	Merger reserve *(Note)*	Exchange reserve	Retained profits	Total
At 1 January 2003	—	(56,606)	—	7,202	(49,404)
Profit attributable to shareholders	—	—	—	22,686	22,686
Dividend	—	—	—	(13,900)	(13,900)
At 31 December 2003	—	(56,606)	—	15,988	(40,618)
At 1 January 2004	—	(56,606)	—	15,988	(40,618)
Profit attributable to shareholders	—	—	—	103,512	103,512
Premium on issue of shares for acquisition of subsidiaries	59,114	—	—	—	59,114
Premium on issue of shares upon initial public offering	55,128	—	—	—	55,128
Share issuing expenses	(8,448)	—	—	—	(8,448)
Exchange differences arising on translation of the accounts of foreign subsidiaries	—	—	54	—	54
Dividends	—	—	—	(62,807)	(62,807)
At 31 December 2004	105,794	(56,606)	54	56,693	105,935
Representing:					
2004 Proposed final dividend				25,990	
Others				30,703	
Retained profits as at 31 December 2004				56,693	
Company and subsidiaries	105,794	(56,606)	54	54,199	103,441
Jointly controlled entities	—	—	—	2,504	2,504
Associated company	—	—	—	(10)	(10)
	105,794	(56,606)	54	56,693	105,935

Note: The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the Exchange of Shares as set out in Note 1 to the accounts.

28. RESERVES (continued)

US$'000	Company		
	Share premium	Retained profits	Total
At date of incorporation	—	—	—
Profit for the period retained *(Note 8)*	—	57,720	57,720
Premium on issue of shares for acquisition of subsidiaries	59,114	—	59,114
Premium on issue of shares upon initial public offering	55,128	—	55,128
Share issuing expenses	(8,448)	—	(8,448)
2004 interim dividend paid and payable	—	(31,342)	(31,342)
At 31 December 2004	105,794	26,378	132,172
Representing:			
2004 Proposed final dividend	—	25,990	25,990
Others	105,794	388	106,182
	105,794	26,378	132,172

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

(a) Reconciliation of operating profit to cash generated from operations:

	2004 **US$'000**	2003 US$'000
Operating profit	**111,718**	27,507
Interest income	**(78)**	(2)
Depreciation	**15,868**	7,890
Loss on disposal of fixed assets	**68**	—
Amortisation of goodwill	**1,329**	—
Dividend income from investment securities	**(227)**	—
Exchange differences	**54**	—
Operating profit before working capital changes	**128,732**	35,395
Increase in inventories	**(1,449)**	(69)
Increase in trade and other receivables	**(8,672)**	(170)
Decrease/(increase) in amounts due from related companies	**10,711**	(805)
(Decrease)/increase in amounts due to related companies	**(4,244)**	3
Increase in trade and other payables	**1,437**	1,423
Cash generated from operations	**126,515**	35,777

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(b) Analysis of changes in financing during the year

	Bank loans *US$'000*	Dividend payable *US$'000*	Share capital including premium *US$'000*
At 1 January 2003	136,732	—	79,502
Dividends declared	—	13,900	—
Cash inflows/(outflows)			
Drawdown of bank loans	19,900	—	—
Repayment of bank loans	(10,769)	—	—
Dividends paid	—	(13,900)	—
At 31 December 2003	145,863	—	79,502
At 1 January 2004	145,863	—	79,502
Dividends declared	—	62,807	—
Issue of shares for acquisition of subsidiaries	—	—	81,313
Cash inflows/(outflows)			
Drawdown of bank loans	417,879	—	—
Repayment of bank loans	(228,038)	—	—
Acquisition of subsidiaries *(Note 29(e))*	35,275	—	—
Dividends paid	—	(49,812)	—
Proceeds from initial public offering net of share issuing expenses	—	—	71,680
At 31 December 2004	370,979	12,995	232,495

(c) Analysis of cash and cash equivalents

	2004 ***US$'000***	2003 *US$'000*
Bank deposits and cash	**47,711**	8,144
Less: restricted and pledged bank deposits	**(6,060)**	(2,400)
	41,651	5,744

(d) Major non-cash transaction

Part of the consideration for the purchase of certain subsidiaries, jointly controlled entities and an associated company upon the Further Acquisitions comprised 221,993,712 ordinary shares in the Company.

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Acquisition of subsidiaries

	2004 **US$'000**	2003 US$'000
Net assets acquired		
Fixed assets *(Note 13)*	**89,427**	—
Interests in jointly controlled entities	**7,782**	—
Restricted bank deposits	**3,839**	—
Investment securities	**200**	—
Inventories	**4,587**	—
Trade and other receivables	**9,130**	—
Amounts due from related companies	**8,577**	—
Cash and bank deposits	**12,158**	—
Bank borrowings	**(35,275)**	—
Trade and other payables	**(28,311)**	—
Amounts due to related companies	**(4,175)**	—
Taxation payable	**(2,095)**	—
	65,844	—
Goodwill *(Note 14)*	**26,585**	—
	92,429	—
Satisfied by:		
Cash	**11,116**	—
Shares of the Company	**81,313**	—
	92,429	—

Analysis of the net cash inflow in respect of the purchase of subsidiaries:

	2004 **US$'000**	2003 US$'000
Cash consideration	**(11,116)**	—
Bank deposits and cash in hand acquired	**12,158**	—
Net cash inflow in respect of the purchase of subsidiaries	**1,042**	—

30. COMMITMENTS

(a) Capital commitments

	Group 2004 US$'000	Group 2003 US$'000
Contracted but not provided for in relation to vessel acquisitions and shipbuilding contracts	105,705	28,173

(b) Commitments under operating leases

(i) *The Group as the lessee*

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

	Land and buildings		Vessels		Total	
	2004 US$'000	2003 US$'000	2004 US$'000	2003 US$'000	2004 US$'000	2003 US$'000
Not later than one year	960	—	17,600	5,895	18,560	5,895
Later than one year but not later than five years	1,663	—	16,733	20,440	18,396	20,440
Later than five years	—	—	—	938	—	938
	2,623	—	34,333	27,273	36,956	27,273

(ii) *The Group as the lessor*

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

	2004 US$'000	2003 US$'000
Not later than one year	40,440	—
Later than one year but not later than five years	17,859	—
	58,299	—

(c) Financial instruments

(i) At 31 December 2004, the Group had outstanding bunkers swap and fixed price agreement contracts to buy approximately 96,500 metric tonnes ("mt") of bunkers at prices which range from US$165 to US$223 per mt, which will expire through December 2007. The commitments were entered to hedge for fluctuation in bunkers price in connection with the Group's long-term cargo contract commitments.

30. COMMITMENTS (continued)

(c) Financial instruments (continued)

(ii) At 31 December 2004, the Group had an outstanding forward exchange contract with a bank to buy approximately Yen4,000,000 (2003: Yen3,140,650,000) and simultaneously sell approximately US$38,400 (2003: US$27,753,000) to the bank, which will mature within one year. The contract was entered to hedge for foreign currency operating expenses.

(iii) At 31 December 2004, the Group had agreements with banks to hedge against three month floating rate LIBOR ("Floating Rate") payments in connection with the Group's long-term bank borrowings, as follows:

- A notional amount of approximately US$121 million (2003: US$Nil) with the Floating Rate capped at approximately 4.9%. These agreements expire in July 2007; and
- A notional amount of approximately US$61 million (2003: US$Nil) with the Floating Rate swapped to fixed rates of approximately 3.5% per annum. These fixed rates are knocked out to the Floating Rate if the Floating Rate exceeds 5% but are capped if the Floating Rate reaches 7%. These agreements expire in July 2009.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the accounts, the Group has entered into the following significant transactions with related parties during the year:

	2004	2003
	US$'000	*US$'000*
Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") *(Note a)*	**199**	70
Administrative service fee received from Epic Shipping (BVI) Limited ("Epic") *(Note b)*	**118**	—

Notes:

(a) The Group has entered into certain insurance contracts for vessels through Sun Hing, a related company in which 35% of its shareholding was held indirectly by Lee Kwok Yin, Simon, a director and a shareholder of the Company.

(b) The Group has entered into a service agreement with Epic, under which management services provided by the Group's staff members were charged on the basis of the time spent and the hourly rates applied, with effect from 1 April 2004. Both Epic and the Company have common substantial shareholders.

32. SUBSEQUENT EVENTS

Subsequent to 31 December 2004, the Group has entered into certain sale and time charter back agreements with third parties in relation to four vessels. The aggregate net sale proceeds were US$59.9 million.

33. PRINCIPAL SUBSIDIARIES ENTITIES

At 31 December 2004, the Company has direct and indirect interests in the following subsidiaries:

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2004	Interest held 2003	Principal activities
			%	%	
Shares held directly:					
PB Management Holding Limited	The British Virgin Islands	12,313 shares of US$1 each	100	—	Investment holding
PB Vessels Holding Limited	The British Virgin Islands	7,950,170 shares of US$1 each	100	—	Investment holding
Shares held indirectly:					
Abbot Point Limited[1]	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Beckley (HK) Limited[1]	Hong Kong/ international	3,000,010 ordinary shares of US$1 each	100	—	Vessel owning and chartering
Bernard (BVI) Limited	The British Virgin Islands/ international	5,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Cape Flattery Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Cape Knox Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning
Cape Scott Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Cape Spencer Shipping Limited[1]	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Castle Island Shipping Limited[1]	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2004	Interest held 2003	Principal activities
			%	%	
Caterina (BVI) Limited	The British Virgin Islands/ international	2,500,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Columbia River Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Delphic Shipping (BVI) Limited	The British Virgin Islands/ international	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Eastern Venture Corporation	The Republic of Liberia	10 Class 'A' shares of US$1 each, 58 Class 'B' shares of US$50,000 each	100	—	Investment holding
Everable Assets Limited	The British Virgin Islands/ international	10 ordinary shares of US$1 each	100	—	Vessel owning and chartering
Everclear Shipping (BVI) Limited	The British Virgin Islands/ international	3,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Flinders Island Limited[1]	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Foreview (HK) Limited[1]	Hong Kong/ international	10 Class 'A' shares of US$1 each, 2,500,000 Class 'B' shares of US$1 each	100	—	Vessel owning and chartering
Foreview Holdings Limited	Hong Kong	2,500,000 ordinary shares of US$1 each	100	—	Investment holding
Francesca Shipping (BVI) Limited	The British Virgin Islands/ international	3,000,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Gold River Shipping Limited[1]	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2004	2003	Principal activities
			%	%	
Good Future International Holdings Limited[1]	The British Virgin Islands/ international	1 ordinary share of US$1	100	—	Vessel owning and chartering
Great Strength Assets Limited	The British Virgin Islands/ international	10 ordinary shares of US$1 each	100	—	Vessel owning and chartering
Gwenyth Shipping (BVI) Limited	The British Virgin Islands/ international	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Helen Shipping (BVI) Limited	The British Virgin Islands/ Hong Kong	100 shares of US$0.01 each	100	100	Vessel chartering
ICSM (HK) Limited (formerly IndoChina Ship Management (HK) Limited)	Hong Kong	100 shares of HK$1,000 each	100	—	Provision of ship management services
IHC Chartering (UK) Limited	The United Kingdom	2 shares of GBP1 each	100	—	Vessel chartering
International Handybulk Carriers Management Limited	The British Virgin Islands/ Hong Kong	10 shares of US$1 each	100	—	Provision of shipping management services
Investors Choice Limited	The British Virgin Islands	10 Class 'A' shares of US$1 each, 1,060 Class 'B' shares of US$5,000 each	100	—	Investment holding
Judith Shipping (BVI) Limited	The British Virgin Islands/ international	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Keswick Holdings Limited	Hong Kong	2,000,000 ordinary shares of US$1 each	100	—	Investment holding

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2004	2003	Principal activities
			%	%	
Keswick Shipping (HK) Limited[1]	Hong Kong/ international	10 Class ‘A’ shares of US$1 each, 2,000,000 Class ‘B’ shares of US$1 each	100	—	Vessel owning and chartering
Kia Shipping (BVI) Limited	The British Virgin Islands/ international	2,600,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Labrador Shipping (BVI) Limited	The British Virgin Islands/ international	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Majestic Carriers, Inc.	Republic of Liberia/ Hong Kong	1,000 shares of US$1 each	100	—	Provision of crew manning services
Mirs Shipping (BVI) Limited	The British Virgin Islands/ international	2,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Mount Rainier Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning
New Majestic International Limited	The British Virgin Islands	10 Class ‘A’ shares of US$1 each, 430 Class ‘B’ shares of US$9,418.605 each	100	—	Investment holding
Newman Shipping (BVI) Limited	The British Virgin Islands/ international	2,600,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Oak Harbour Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Othello Shipping (BVI) Limited	The British Virgin Islands/ international	2,659,300 shares of US$0.01 each	100	100	Vessel owning and chartering

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2004	2003	Principal activities
			%	%	
PacBasin Marine Services, Inc. (formerly IndoChina Marine Services, Inc.)	Philippines	5,000 shares of Peso 100 each	100	—	Sale of chemical products
PacBasin Ship Management, Inc. (formerly IndoChina Ship Management, Inc.)	Philippines	250,000 shares of Peso 10 each	100	—	Provision of crew manning services
Pacific Basin Chartering Limited	The British Virgin Islands/ Hong Kong	10 shares of US$1 each	100	—	Vessels chartering
Pacific Basin Marine Services Limited (formerly IndoChina Marine Services Limited)	Hong Kong	2 shares of HK$1 each	100	—	Sale of chemical products
Pacific Basin Ship Management Limited	Hong Kong	1 share of HK$1	100	—	Provision of ship management services to third parties
Pacific Basin Shipping & Trading Company Limited	The British Virgin Islands/ Hong Kong	10 shares of US$1 each	100	—	Provision of ship management services
Pacific Basin Shipping (HK) Limited (formerly Pacific Basin Agencies Limited)	Hong Kong	2 shares of HK$10 each	100	—	Provision of ship agency services
Pacific Basin Shipping (Australia) Pty Ltd	Australia	1 share of AUD1	100	—	Provision of ship consulting services

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2004	2003	Principal activities
			%	%	
Pacific Basin Shipping (UK) Limited (formerly Pacific Basin (UK) Limited)	The United Kingdom	2 shares of GBP1 each	100	—	Provision of ship consulting services
Pacific Basin Shipping (USA) Inc. (formerly IndoChina Ship Management (USA) Inc.)	The United States of America	100 shares of US$10 each	100	—	Provision of ship management services
Pacific Basin Shipping Consulting (Shanghai) Limited[2]	PRC	US$200,000	100	—	Provision of ship consulting services
PacMarine Services (HK) Limited	Hong Kong	2 shares of HK$1 each	100	—	Provision of surveying and consultancy services
PacMarine Services (UK) Limited	United Kingdom	1,000 shares of GBP1 each	100	—	Provision of surveying and consultancy services
PacMarine Services Pte. Ltd. (formerly PMS Surveying Services Pte Ltd)	Singapore	1,000 shares of S$1 each	100	—	Provision of surveying and consultancy services
PBS Corporate Secretarial Limited	Hong Kong	1 share of HK$1	100	—	Provision of secretarial services
PMS Services Co., Ltd.	Korea	10,000 shares of 5,000 Won each	100	—	Provision of survey services
Pitt Island Limited[1]	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Port Alice Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Port Angeles Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2004	2003	Principal activities
			%	%	
Port Pirie Limited[1]	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Quincy Shipping (BVI) Limited[1]	The British Virgin Islands/ international	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Riley Shipping (BVI) Limited[1]	The British Virgin Islands/ international	10 Class 'A' shares of US$1 each, 440 Class 'B' shares of US$10,000 each	100	—	Vessel owning and chartering
Spencer Shipping (BVI) Limited	The British Virgin Islands/ international	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Taylor Shipping (BVI) Limited	The British Virgin Islands/ Hong Kong	10 shares of US$1 each	100	—	Vessel chartering
Thompson Shipping (BVI) Limited	The British Virgin Islands/ international	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Uhland Shipping (BVI) Limited	The British Virgin Islands/ Hong Kong	100 shares of US$0.01 each	100	100	Vessel chartering
Union Bay Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning
Verner Shipping (BVI) Limited	The British Virgin Islands/ Hong Kong	100 shares of US$0.01 each	100	100	Vessel chartering
Wexford Investments Limited	Hong Kong/ international	1 share of HK$1	100	—	Vessel owning and chartering
Wharton Shipping Limited[1]	The British Virgin Islands/ international	100 shares of US$0.01 each	100	100	Vessel owning and chartering

Notes:

1 Shares of these subsidiaries have been pledged to banks as security for loan facilities granted (Note 26(iii)).

2 Pacific Basin Shipping Consulting (Shanghai) Limited is a wholly foreign-owned enterprise established in the PRC, with registered capital of US$200,000 fully paid up by the Group.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 1 March 2005.

GROUP FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for each of the four years ended 31 December 2004:

US$'000	**2004**	2003	2002	2001
Results				
Turnover	**234,266**	54,188	27,924	18,257
Bunkers and voyage-related expenses	**(45,383)**	—	—	—
Turnover on a time charter equivalent basis	**188,883**	54,188	27,924	18,257
EBITDA*	**131,409**	35,397	16,996	12,301
Profit/(loss) before taxation	**103,997**	22,686	(2,027)	3,256
Taxation	**(485)**	—	—	—
Profit/(loss) attributable to shareholders	**103,512**	22,686	(2,027)	3,256
Pre-listing dividends	**49,812**	13,900	—	—
Post-listing dividends	**38,985**	—	—	—
Basic earnings/(loss) per share *(US cents)*	**9.59**	2.85	(0.25)	0.41
Assets and liabilities				
Total assets	**653,726**	212,702	192,515	148,242
Total liabilities	**(421,090)**	(173,818)	(169,447)	(123,148)
Net assets	**232,636**	38,884	23,068	25,094

Note: The results of the Group for the three years ended 31 December 2003, 2002 and 2001 and its assets and liabilities as at 31 December 2003, 2002 and 2001 have been extracted from the Company's Prospectus dated 30 June 2004, which also set out the details of the basis of preparation of the consolidation. The results of the Group for the year ended 31 December 2004 and its assets and liabilities as at 31 December 2004 are those set out on pages 55 to 97 of the accounts and are presented on the basis as set out in note 1 to the accounts.

* *EBITDA is defined as earnings before interest and finance costs, tax, depreciation and amortisation.*

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the Annual General Meeting of Pacific Basin Shipping Limited (the "Company") for the year 2005 will be held at Grand Hyatt Hotel at No. 1 Harbour Road, Wanchai, Hong Kong on Friday, 29 April 2005 at 11:00 a.m. for the following purposes:

1. To receive and adopt the audited accounts and the reports of the directors and auditors for the year ended 31 December 2004;

2. To declare a final dividend for the year ended 31 December 2004;

3. To re-elect directors and to authorise the board of directors of the Company to fix their remuneration;

4. To re-appoint Messrs. PricewaterhouseCoopers, Certified Public Accountants, as the auditors of the Company and to authorise the board of directors of the Company to fix their remuneration;

As special business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

5. **"THAT:**

   (a) subject to paragraph (c) of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue or otherwise deal with new shares of US$0.10 each in the capital of the Company (the "Shares") or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares, and to make or grant offers, agreements, options and warrants which would or might require the exercise of such powers be generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the directors of the Company during the Relevant Period to make or grant offers, agreements, options and warrants which would or might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to Shares issued as a result of a Rights Issue (as defined below), the exercise of the subscription or conversion rights attaching to any warrants issued by the Company or the exercise of options granted under the share option scheme of the Company or any script dividend providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares, shall not exceed 20% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution and the said approval shall be limited accordingly; and

   (d) for the purposes of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earliest of:

      (i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Act 1981 of Bermuda or the Company's Bye-laws to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the Shareholders of the Company in general meeting; and

"Rights Issue" means the allotment, issue or grant of Shares pursuant to an offer of shares open for a period fixed by the directors of the Company to holders of Shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

6. **"THAT:**

(a) subject to paragraph (b) of this resolution, the exercise by the directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to purchase or repurchase shares of US$0.10 each in the capital of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the Shares may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange be generally and unconditionally approved;

(b) the aggregate nominal amount of the Shares which may be purchased or repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during that Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, and the said approval shall be limited accordingly;

(c) for the purposes of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earlier of: (i) the conclusion of the next annual general meeting of the Company; (ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Act 1981 of Bermuda or the Company's Bye-laws to be held; and (iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the shareholders of the Company in general meeting."

7. **"THAT** subject to the passing of Ordinary Resolutions No. 5 and 6 set out in the notice convening this meeting, the aggregate nominal amount of the shares of the Company which may be purchased or repurchased by the Company pursuant to the authority granted to the directors of the Company by Ordinary Resolution No. 6 set out in the notice convening this meeting shall be added to the aggregate nominal amount of share capital of the Company that may be allotted or issued or agreed conditionally or unconditionally to be allotted or issued by the directors of the

Company pursuant to Ordinary Resolution No. 5 set out in the notice convening this meeting, provided that such shares shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of this resolution."

8. As special business, to consider and, if thought fit, pass the following resolution as a Special Resolution:

   "THAT the Bye-laws of the Company be amended by deleting the existing Bye-law 87.(1) in its entirety and replacing it with the following new Bye-law 87.(1):

   "87.(1) Notwithstanding any other provisions in the Bye-laws, at each annual general meeting one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation."

By Order of the Board
Andrew T. Broomhead
Company Secretary

Hong Kong, 31 March 2005

Notes:

1. Every member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more persons as their proxy to attend and vote on behalf of themselves. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other document of authority, if any, under which the form is signed, or a certified copy thereof, must be deposited with the Company's Hong Kong branch registrar in Hong Kong at Computershare Hong Kong Investor Services Limited, 46th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof (as the case may be).

3. Completion and return of the form of proxy will not preclude shareholders from attending and voting in person at the meeting or any adjourned meeting or upon the poll concerned if shareholders so wish. In such event, the instrument appointing the proxy shall be deemed to be revoked.

4. The Board of Directors has recommended a final dividend for the year ended 31 December 2004 of HK$0.16 per share and, if such dividend is declared by the members passing Resolution No. 2, it is expected to be paid on or about 6 May 2005 to those shareholders whose names appear on the Company's register of members on 29 April 2005.

5. The register of members of the Company will be closed from 27 April 2005 to 29 April 2005 (both days inclusive), during which period no transfer of shares in the Company will be effected. In order to qualify for the proposed final dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, Rooms 1712–1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4 p.m. on 26 April 2005. The ex-dividend date for the final dividend will be 25 April 2005.

6. The Bye-laws of the Company are written in English. There is no official Chinese translation in respect thereof. Therefore, the Chinese version of Resolution 8 above on amendments of Bye-laws is purely a translation only. Should there be any discrepancies, the English version will prevail.

7. A circular containing the information regarding, inter alia, the directors proposed to be re-elected, the general mandate to issue securities, the mandate to repurchase shares of the Company and amendment to the Bye-laws of the Company will be sent to shareholders of the Company together with the Company's 2004 Annual Report.

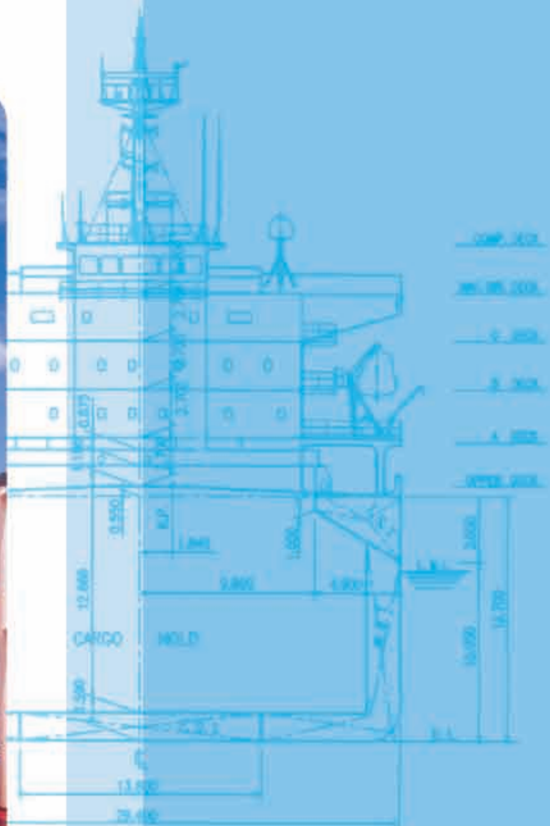
GLOSSARY OF TERMS

"Associated Companies"	those companies (excluding subsidiaries and joint ventures) in which the Company, directly or indirectly, has a 20% or greater beneficial interest in their equity share capital
"back haul cargoes"	cargoes transported against the standard flow of traffic, i.e. loading in a port situated in what is usually a discharge area, and discharging in a port situated in what is usually a loading area
"ballast day(s)"	day(s) on which a ship performs a voyage without cargo on board
"Baltic Dry Index" or "BDI"	is the general dry bulk freight market indicator (based of spot rates for larger bulk carriers) generated by the Baltic Exchange
"beam"	the greatest width of a vessel
"bunkers"	fuel, consisting of fuel oil and diesel, burned in the vessel's engines
"charter"	a contract for the commercial leasing of a vessel or space on a vessel
"charter-hire"	the revenue earned by a vessel pursuant to a bareboat charter or Time Charter (See "freight" for Voyage Charter revenue)
"charterer"	a person, firm or company hiring a vessel for the carriage of goods or other purposes
"classification societies"	independent societies which certify that a vessel has been built and maintained in accordance with the rules of such society and complies with the applicable rules and regulations of the flag state of such vessel and the international conventions of which that country is a member
"commercial management"	management of those aspects of ship owning and operation that relate to obtaining economic value from the vessel which includes ship financing, sale and purchase, chartering or vessel employment, voyage execution, insurance and claims handling, accounting and corporate administration
"Contract of Affreightment" or "COA"	is similar to a Voyage Charter but is for two or more shipments over an agreed period of time (this could be over a number of months or years) and no particular vessel is specified
"contract cargoes"	are cargoes carried under the terms of a Contract of Affreightment
"Controlling Group"	Pembroke Shipping Limited, the Initial Investors and their respective shareholders, and certain companies controlled by or in common control with such shareholders
"Controlling Shareholder"	any person who has the power, directly or indirectly, to secure that the affairs of the Company are conducted in accordance with the wishes of such person: (i) by means of the holding of shares entitling him to exercise or control the exercise of 30% (or such other percentage as may from time to time be specified in the Code on Takeovers and Mergers as being the level for triggering a mandatory general offer) or more of the voting power at general meetings of the Company, or

	(ii) by means of controlling the composition of a majority of the Board.
"demurrage"	an agreed amount payable to the ship owner by the charterer when the agreed time allowed for loading or unloading cargo has been exceeded through no fault of the owner
"despatch"	an agreed amount payable by the shipowner to the charterer if the vessel completes loading/discharging cargo within the time allowed for this activity under the terms of a charter
"draft"	vertical distance between the waterline and the bottom of the vessel's keel (i.e. the depth of the ship in the water)
"drydocking"	the removal of a vessel from the water for inspection, maintenance and/or repair of submerged parts
"dwt"	dead weight tonnes, the unit of measurement of weight capacity of vessels, which is the total weight (usually in metric tonnes) the ship can carry, including cargo, bunkers, water, stores, spares, crew, etc. at a specified draft
"flag state"	the country where the vessel is registered
"freight"	the revenue earned by a vessel pursuant to a Voyage Charter or Contract of Affreightment
"front haul"	the typical flow of the transportation of cargoes from the main loading areas to the main discharging areas
"Handymax"	dry bulk carrier of 40,000 to 59,999 dwt which carries a wide variety of cargoes including major and minor bulk cargoes
"Handysize"	dry bulk carrier of 10,000 to 39,999 dwt which is commonly equipped with cargo gear such as cranes. This type of vessel carries principally minor bulk cargoes and limited quantities of major bulk cargoes. It is well suited for transporting cargoes to ports that may have draft restrictions or are not equipped with gear for loading or discharging cargo
"Initial Investors"	IDB Carriers (BVI) Limited, Dry Bulk Shipping (BVI) Limited and Plymouth Shipping Investments Limited which are companies incorporated under the laws of the British Virgin Islands
"ISM Code"	the International Management Code for the Safe Operation of Ships and for Pollution Prevention adopted by the International Maritime Organization
"mt"	metric tonnes
"major bulk"	dry bulk cargoes consisting of iron ore, coal and grain
"minor bulk"	dry bulk cargoes such as forest products, iron and steel products, fertilisers, agricultural products, minerals and petcoke, bauxite and alumina, cement, other construction materials and salt

GLOSSARY OF TERMS

"newbuilding"	a vessel under construction or on order
"off-hire"	period during which a vessel is temporarily unable to operate under the terms of its charter, resulting in loss of income under the charter
"P&I"	protection and indemnity. This denotes the insurance coverage taken by a ship owner or charterer against third party liabilities such as oil pollution, cargo damage, crew injury or loss of life, etc.
"P&I Association"	a mutual insurance association providing P&I insurance coverage
"Pembroke"	Pembroke Shipping Limited incorporated under the laws of the British Virgin Islands (formerly known successively as Pacific Basin Shipping Investments Limited, Pacific Basin Shipping Limited and Epic Shipping Limited)
"special survey"	the mandatory inspection of a vessel by a Classification Society surveyor that takes place every five years
"spot market"	the market for immediate chartering of a vessel, usually for a single cargo or short-term trading
"time charter"	charter for an agreed period of time where the ship owner is paid on a per day basis and is responsible for operating the vessel and paying the operating costs while the charterer is responsible for paying the voyage costs and bears the risk of any delays at port or during the voyage except where caused by a defect of the ship
"Time Charter Equivalent"	The net result of a voyage charter or COA contract shipment expressed as a daily rate over the duration of the voyage
"tonnage"	a generic term refering to any kind of ocean-going cargo vessel or vessels
"tonnage procurement"	the introduction of additional vessels into the Group's fleet by means of purchasing secondhand vessels, taking delivery of newbuildings or by chartering vessels into the fleet
"tonnes"	metric tonnes
"voyage charter"	charter under which a ship owner is paid freight on the basis of transporting cargo from a load port to a discharge port and is responsible for paying both operating costs and voyage costs
"vessel operating expenses"	these consist of crew expenses, insurances, spare parts, stores and lubricating oils, vessel repairs and surveys, commissions and other miscellaneous costs
"voyage costs"	bunker costs, port charges and canal dues (or tolls) incurred during the course of a voyage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