Pacific Basin Shipping Limited

太平洋航運集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 2343)

www.pacbasin.com

ANNOUNCEMENT OF ANNUAL RESULTS
FOR THE YEAR ENDED 31 DECEMBER 2004

The Directors of Pacific Basin Shipping Limited (the "Company") are pleased to announce the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2004 as follows:

Key Highlights

	Year Ended 31 December	
	2004	2003
	US$ millions	*US$ millions*
Total Turnover	**234.3**	54.2
Profit Attributable to Shareholders	**103.5**	22.7
Basic Earnings per share (US cents)	**9.59**	2.85
Basic Earnings per share (HK cents)	***74.80***	*22.23*

- **Proposed final dividend of HK$0.16 per share, giving total dividend of HK$0.24 per share in respect of the results for the seven months ended 31 December 2004**
- **Fleet expansion in 2004 drives 82% growth in vessel revenue days to 10,000 (2003: 5,500) with an average rate earned of US$17,900 per vessel per day (2003: US$9,800)**
- **The fleet today stands at 47 vessels with an average age of 5 years (Handysize: 34 owned, 7 on long-term charters and 4 managed; Handymax: 2 owned)**
- **The 2004 fleet expansion provides 43% growth in 2005's Handysize vessel revenue days to 14,200 (before further planned fleet expansion)**

CHAIRMAN'S STATEMENT

Overview

We are pleased to present a satisfactory first set of annual results after a year which has been a very significant one 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. During the year the freight market for dry bulk shipping has been 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. During the year, we operated an average of 28 vessels (rising to 41 by the end of the year), providing a total of just over 10,000 revenue days achieving average daily income 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 ensure that we were able to respond to our customers' requirements efficiently within their own time zones and that we had proper 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 currently 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 tight 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 Japan, China and South Korea, the Group's main cargo delivery destinations, where the consumption of primary raw materials created significant additional shipping requirements.

Although the freight market experienced two sharp rate spikes, the first in February/March and the second in October/November, the demand for tonnage and the supply available to meet that demand were finely balanced for the entire year, producing healthy rates in both the Pacific and

Atlantic throughout the year. The spikes that fuelled these rates 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.

This pattern, set against a highly utilised supply base, also drove up rates in the Handysize market, where we enjoyed spot rates above US$15,000 per day for most of the year and in excess of US$20,000 for extended periods in the second and fourth quarters.

On the newbuilding vessel supply side, capacity constraints appear to limit the number of potential deliveries for the foreseeable future, with the dry bulk sector having only 21% of current fleet capacity on order for delivery over the next three to four years. With shipyards already 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 (25–35,000 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 27% 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 and to incur 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 20–30% 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 opportunities to buy 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 as the leading supplier of freight services provided directly to the major commodity companies predominantly in the Pacific, backed by a fleet of modern Handysize 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 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 the 2004 year-end are described in Fleet Developments below.

Our strategy of providing direct services to the 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 and South Korea. At both load and discharge ports, related infrastructure restrictions or natural geographical features frequently dictate that modern Handysize vessels 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 over 80% of the time in 2004. Our success in securing back haul cargoes has resulted in Australia (our largest loading area) becoming our third largest discharge destination, behind only Japan and China.

In tandem with our fleet expansion, we have in the last year opened new offices in Melbourne, Shanghai and Vancouver to provide local back up 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 announcement), 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 taken advantage of buoyant market conditions 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 of China, Japan and South Korea remain encouraging.

With shipyard orderbooks 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, backed by a modern fleet of Handysize vessels and a network of regional offices staffed by a team of dedicated professionals. 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, 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 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 the 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

CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2004

	Note	2004 US$'000	2003 US$'000
Turnover		**234,266**	54,188
Bunkers, port disbursement and other charges	2	**(45,383)**	—
Turnover on a time charter equivalent basis	2	**188,883**	54,188
Other revenues	2	**431**	2
Direct costs		**(70,715)**	(26,214)
General and administrative expenses		**(6,881)**	(469)
Operating profit		**111,718**	27,507
Finance costs		**(10,215)**	(4,821)
Share of loss of an associated company		**(10)**	—
Share of profits of jointly controlled entities		**2,504**	—
Profit before taxation	3	**103,997**	22,686
Taxation	4	**(485)**	—
Profit attributable to shareholders		**103,512**	22,686
Dividends	5	**88,797**	13,900
Basic earnings per share	6(a)	**US 9.59 cents**	US 2.85 cents
Diluted earnings per share	6(b)	**US 9.55 cents**	N/A

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2004

	2004 US$'000	2003 US$'000
Non-current assets		
Fixed assets	**544,194**	200,777
Goodwill	**25,256**	—
Interests in jointly controlled entities	**10,657**	—

Interest in an associated company	**1**	—
Investment securities	**200**	—
Deferred loan arrangement fees	**855**	633
Restricted bank deposits	**4,150**	2,400
	585,313	203,810
Current assets		
Inventories	**6,564**	528
Trade receivables	**7,655**	—
Other receivables	**10,633**	2,620
Bank balances and cash		
— pledged	**1,910**	—
— unpledged	**41,651**	5,744
	68,413	8,892
Current liabilities		
Trade payables	**3,730**	—
Other payables	**31,585**	27,955
Current portion of long-term bank loans	**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	**126,701**	79,502
Retained profits		
Proposed dividend	**25,990**	—
Others	**30,703**	15,988
Other reserves	**49,242**	(56,606)
Shareholders' funds	**232,636**	38,884
Non-current liabilities		
Long-term bank loans	**334,846**	134,994
	567,482	173,878

NOTES:

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 convention, in accordance with accounting principles generally accepted in Hong Kong, and comply with accounting standards issued by the HKICPA.

2. 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	2003
	US$'000	*US$'000*
Turnover		
Freight and charter-hire income	**224,762**	54,188
Ship management income	**9,504**	—
	234,266	54,188
Bunkers, port disbursement 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 unlisted investments	**227**	—
Other income	**126**	—
	431	2
Total revenues	**189,314**	54,190

The acquisition of the management companies under the Further Acquisitions brought the International Handybulk Carriers ("IHC") pool under the control of the Group. Accordingly the Group now accounts for the turnover of its portion of income in the IHC pool 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.

(a) *Primary reporting format — business segments*

An analysis of the Group's revenues and results for the year by business segments is as follows:

	Ship chartering 2004 *US$'000*	**Ship management 2004** *US$'000*	**Inter-segment elimination 2004** *US$'000*	**Group 2004** *US$'000*
Turnover	224,762	22,486	(12,982)	234,266
Bunkers, port disbursement and other charges	(45,383)	—	—	(45,383)
Turnover on a time charter equivalent basis	179,379	22,486	(12,982)	188,883
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

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

(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.

3. Profit before taxation

Profit before taxation is stated after charging the following:

	2004 US$'000	2003 US$'000
Auditors' remuneration	**252**	65
Amortisation of goodwill	**1,329**	—
Crew costs	**9,502**	5,560
Cost of marine products sold	**1,762**	—
Depreciation	**15,868**	7,890
Drydocking expenses	**4,524**	629
Interest on bank borrowings	**7,756**	4,756
Net exchange losses	**74**	—
Operating lease expenses on		
— vessels	**18,659**	5,235
— land and buildings	**585**	—
Staff costs	**11,704**	—

4. 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 US$'000	2003 US$'000
Hong Kong profits tax	**406**	—
Overseas tax	**79**	—
	485	—

5. Dividends

	2004 US$'000	2003 US$'000
Dividend 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 ordinary share *(Note (b))*	**18,347**	—
Interim, declared, of US$0.01 (2003: US$Nil) per ordinary share *(Note (c))*	**12,995**	—
Final, proposed, of US$0.02 (2003: US$Nil) per ordinary share *(Note (d))*	**25,990**	—
	88,797	13,900

Notes:

(a) The dividend rate and the number of shares ranking for the dividend in respect of the dividend declared by companies now comprising the Group under the Exchange of Shares as set out in Note 1 payable to the then shareholders of the Company 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 US$0.01 per share.

(d) On 1 March 2005, the Directors proposed a final dividend of 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.

6. 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.

(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.

MANAGEMENT DISCUSSION AND ANALYSIS

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 ("Reorganisation") during 2004 as described more fully in Note 1 to the financial information in this announcement and 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 the 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 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 acquisition of six vessels pursuant to the Reorganisation, the delivery of two newbuildings in May and further acquisition of 11 vessels after the Listing. 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. A direct cost allocation of US$11.0 million has been included in direct costs in 2004 following 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 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: US$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 professional fee 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 fee of US$1.5 million, and net cost of swap contracts of US$0.9 million. The 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 delivered. 15 vessels were delivered in 2004, while two vessels were delivered in 2003.

Net cash provided by financing activities was US$178.9 million 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.

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 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 Year 2012.

The Group is exposed to interest rate fluctuation 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 with a total net book value of approximately US$523.6 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 forward exchange contract with a bank to buy approximately Yen 4.0 million and simultaneously to sell approximately US$38,400 for operating expenses dominated 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 fluctuation 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, was US$269.3 million.

As at 31 December 2004, the Group had non-cancellable commitments for the construction of five 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 of 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, Shanghai, London, North America, Singapore, Tokyo, Manila and Melbourne.

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 that year and/or to performance-related bonuses if certain financial targets, which are set annually by the Board, are achieved.

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. Subsequent to the year end and up to the date of this announcement, options to subscribe for 55,500,000 shares at HK$2.50 per share were granted on 14 July 2004. All options may be exercised over a period of 10 years and vested over a period of three years.

Purchase, Sale or Redemption of Shares

Pursuant to a 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 prices of US$1 per class of shares.

No pre-emptive rights exist under Bermuda law in relation to the issue of new shares by the Company.

Compliance with the Code of Best Practice

None of the Directors is aware of any information that would reasonably indicate that the Company is not, or was not, 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 (the "Listing Rules"), during the financial year, except that the non-executive directors of the Company are not appointed for a specific term but are subject to retirement by rotation and election of the annual general meeting of the Company in accordance with the provisions of the Company's Bye-laws.

Audit and Remuneration Committees

The Company established an audit committee on 10 June 2004 (the "Audit Committee") with written terms of reference, comprising exclusively the three Independent Non-Executive Directors of the Company, namely The Earl of Cromer, Patrick Blackwell Paul (chairman) and Robert Charles Nicholson. The primary duties of the Audit Committee are to review and supervise the financial reporting process and internal controls of the Company. A meeting of the Audit Committee was held to review the Group's annual results for the year ended 31 December 2004 before they were presented to the Board of Directors for approval.

The Company established a remuneration committee on 10 June 2004 (the "Remuneration Committee"). The Remuneration Committee shall consist of not less than three members, a majority of whom shall be independent. The Remuneration Committee initially comprised the three Independent Non-Executive Directors of the Company, namely The Earl of Cromer, Patrick Blackwell Paul and Robert Charles Nicholson (chairman). At a board meeting held on 15 September 2004, Lee Kwok Yin, Simon and Brian Paul Friedman, both Non-Executive Directors, were appointed as members of the Remuneration Committee in addition to the three Independent Non-Executive Directors. The terms of reference of the Remuneration Committee were approved by the Board of Directors on 15 September 2004. The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration, including specifically that of Directors and senior management, and on the establishment of a formal and transparent procedure for developing policy on such remuneration.

Compliance with Code of Conduct regarding Directors' Securities Transactions

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less than the required standard set out in Appendix 10 of the Listing Rules — Model Code of Securities Transactions by Directors of Listed Companies. The Directors have complied with such code of conduct throughout the accounting period covered by these annual results.

Annual Report and Disclosure of Information on Stock Exchange's Website

This announcement of annual results containing all the information required by paragraphs 45(1) to 45(8) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website at www.hkex.com.hk and on the Company's website at www.pacbasin.com.

The Company's 2004 Annual Report will be circulated to shareholders by 1 April 2005. An electronic copy of the Annual Report will also be available on the Company's website at www.pacbasin.com from the date when the printed copy is dispatched to shareholders.

The annual results have been reviewed by the Audit Committee.

Notification of Change of Address

In compliance with Listing Rule 13.51(5), the Company announces that, with effect from 7 March 2005, the Company's registered office in Hong Kong will change to:

7/F, Hutchison House
10 Harcourt Road
Central
Hong Kong

Directors

As at the date of this announcement, the Executive Directors of the Company are Christopher Richard Buttery, Mark Malcolm Harris and Paul Charles Over, the Non-Executive Directors of the Company are Lee Kwok Yin, Simon, James John Dowling and Brian Paul Friedman, and the Independent Non-Executive Directors of the Company are Robert Charles Nicholson, Patrick Blackwell Paul and The Earl of Cromer.

* *For identification purpose only.*

Please also refer to the published version of this announcement in the ***(South China Morning Post)***