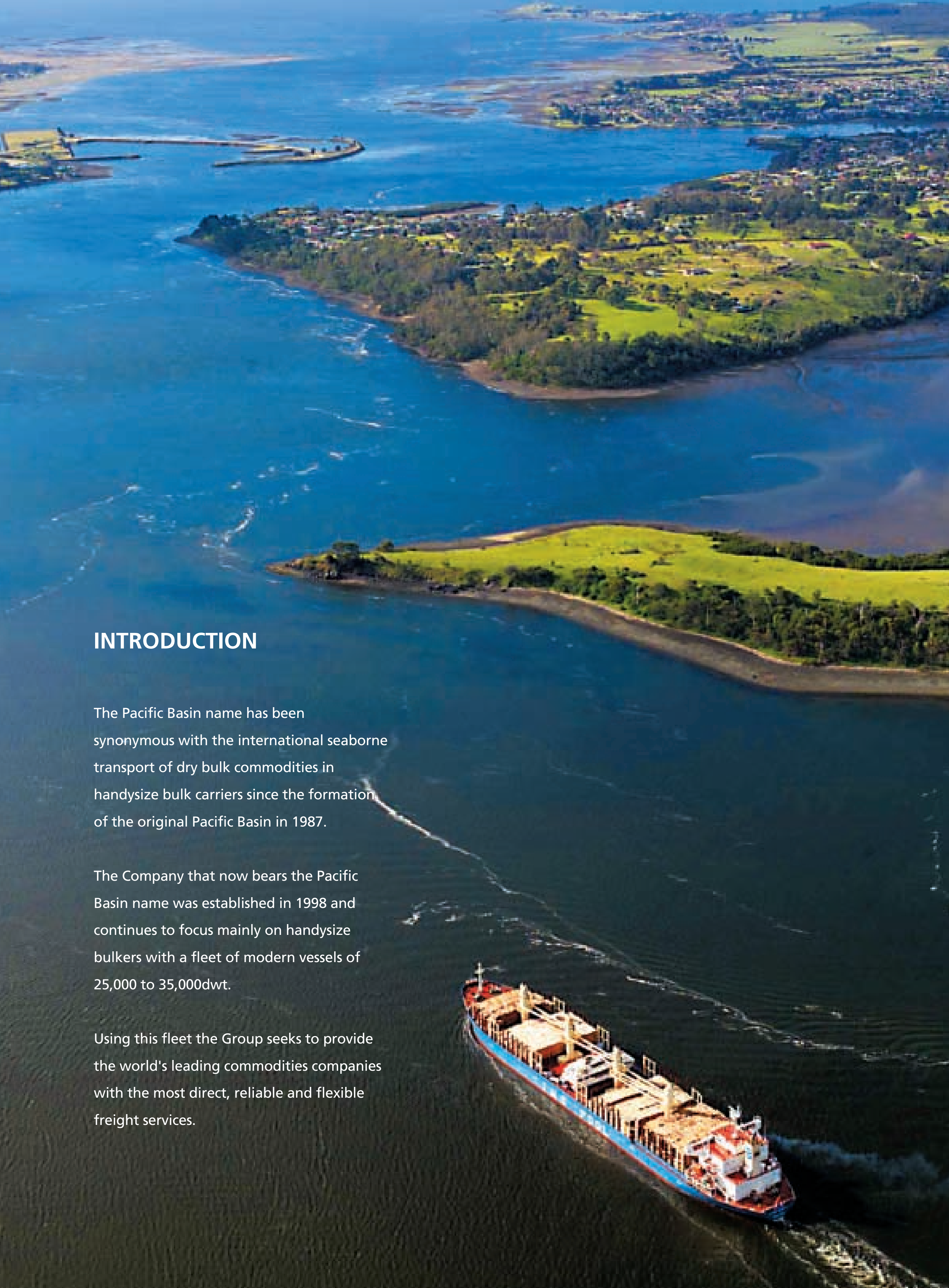
Pacific Basin Shipping Limited

(Incorporated in Bermuda with limited liability)

ANNUAL REPORT 2005



(Stock Code: 2343)



INTRODUCTION

The Pacific Basin name has been synonymous with the international seaborne transport of dry bulk commodities in handysize bulk carriers since the formation of the original Pacific Basin in 1987.

The Company that now bears the Pacific Basin name was established in 1998 and continues to focus mainly on handysize bulkers with a fleet of modern vessels of 25,000 to 35,000dwt.

Using this fleet the Group seeks to provide the world's leading commodities companies with the most direct, reliable and flexible freight services.

Contents

FINANCIAL HIGHLIGHTS

	2005 US$'000	2004 US$'000
Results		
Turnover	**433,704**	302,244
Time charter equivalent earnings	**264,683**	188,883
Profit before tax and disposal gains	**124,406**	104,040
Profit attributable to shareholders	**147,143**	103,555
Financial Position		
Total assets	**674,117**	652,805
Total net borrowings	**233,174**	322,413
Shareholders' equity	**309,274**	232,570
Per Share Data		
Basic earnings per share	**US 11.58 cents**	US 9.59 cents
Dividends per share[1]	**US 8 cents**	US 3 cents
Dividends per share[1]	**HK 65 cents**	HK 24 cents
Ratios		
Net borrowings to book value of fixed assets	**46.2%**	59.3%
Net borrowings to shareholders' equity	**75.4%**	138.6%
Interest coverage (EBITDA[2]/Interest expense)	**10.9 times**	13.1 times

(1) Pre-Listing dividends per share are not presented as such information is not considered to be meaningful for the purpose of these accounts.

(2) EBITDA is defined as earnings before interest and finance costs, tax, depreciation and amortisation.

CORPORATE INFORMATION

Board of Directors

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

Non-executive Directors
Mr. Lee Kwok Yin, Simon, M.B.E, J.P.
Mr. Brian P. Friedman

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. Lee Kwok Yin, Simon, M.B.E, J.P.
Mr. Brian P. Friedman

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7th Floor, Hutchison House
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Hong Kong
tel: + 852 2233 7000

Registered Address
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Presence World Wide
Hong Kong, Shanghai, Singapore, London, Dalian, Seoul, Tokyo, Beijing, Melbourne, Vancouver, Mumbai, Bad Essen, Karachi

Share Registrar
Computershare Hong Kong Investor
Services Limited
Hopewell Centre, 46th Floor
183 Queen's Road East
Wanchai, Hong Kong
tel: + 852 2862 8628 fax: + 852 2865 0990
email: hkinfo@computershare.com.hk

Auditors
PricewaterhouseCoopers

Solicitors
Johnson Stokes & Master
Linklaters
Vincent T.K. Cheung, Yap & Co.

Company Secretary
Mr. Andrew T. Broomhead, *FCPA*
companysecretary@pacbasin.com

Listing Venue
The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")

Stock Code
2343.HK

Listing Date
14 July 2004

Total Shares in Issue
1,282,740,609 as at 31 December 2005

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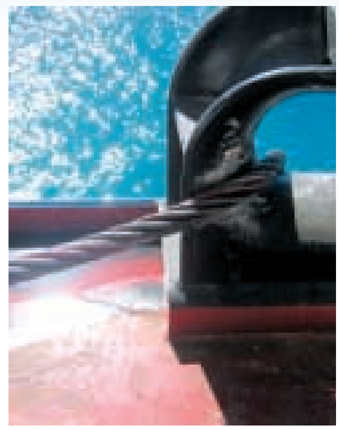
CHAIRMAN'S STATEMENT

Results Summary

2005 witnessed another outstanding performance by the handysize drybulk market and successful further development of the Group's business model spearheaded by the IHC Pool. Consequently, Pacific Basin achieved very good results for the year ended 31 December 2005, its first full year as a publicly listed company. Group profits increased by 42% over 2004 to US$147.1 million (including US$23.5 million from seven sale and charterbacks and one lease-sale transaction) and turnover by 43% to US$433.7 million. Basic earnings per share rose 20.8% to 11.58 US cents (89.72 HK cents).



Given these strong results, our Group's secure financial condition and the apparently satisfactory outlook for the world economy and our business, the Board has recommended a final dividend of 35 HK cents per share, bringing the total for the year to 65 HK cents per share. This represents a 73% payout ratio, a substantial increase on the 56% distribution in 2004. The Board has also reaffirmed that it expects to maintain its dividend policy at a minimum of 50% of distributable profits or higher if circumstances permit. Following the payment of the 2005 final dividend, the Group will still have distributable profits of US$68 million. Taking all these factors into account and with more than 60% of our 2006 revenue days covered at satisfactory levels, the Board currently expects to be able to propose to pay in aggregate at least 40 HK cents per share by way of interim and final dividends for 2006.

The composition of the profit figure includes transaction gains totalling US$23.5 million which arose from the sale of six ships taken back on long term charters at reasonable rates and with purchase options. A seventh ship was finance-leased to a customer in China but accounted for as sold and an eighth (the smallest and oldest in our fleet) was disposed of with a shorter-term charterback. Without these gains, the increase in profits over 2004 (when there were no gains) was 19.4% – a function of the benefits of additional revenue days being moderated by slightly lower average income and higher overheads. The ships remaining under our long term control are now owned by Japanese companies with whom we have good relationships. Their appetite for very cheap yen finance combined with the tax benefits of ownership produced reasonably good sale prices linked, more importantly, to competitive charterback rates.

CHAIRMAN'S STATEMENT

Market Review

Total dry bulk cargo volumes in 2005 are estimated to have risen by approximately 5%, with the major cargoes (led by iron ore) outpacing the 2% increase in the less volatile, minor cargoes which are predominantly carried by our handysize ships. Dry bulk freight rates and ship values opened the year at exceptionally high levels and ended much lower but were nonetheless still high historically. Significantly, this was in the face of substantial newbuilding deliveries, at close to 7% of the total fleet, leading us to believe that considerable momentum exists in the market overall and, we believe, in our handysize sector in particular.

China's growing industrial production was once again the most important factor behind the remarkable resilience of the dry bulk market, with their iron ore import volumes increasing by almost a third year on year. To illustrate the effect of this trend, in 2000 China's iron ore imports were approximately half those of Japan, then the largest in the world. By 2005, Chinese volumes were more than double those of Japan and 2006 is likely to see further growth, although probably at a slightly slower pace. Dry bulk movements involving other Asian countries also grew encouragingly. Having our Group headquarters and largest office in Hong Kong positions us well to take advantage of the many shipping opportunities, to and from China and the other recovering and expanding economies of the region including Japan, South Korea and India.

With deliveries of all classes of new dry bulk vessels set to peak this year at just over 7% and given shipping's historical susceptibility to cycles, the less than optimistic market sentiment discernible at times has been understandable. The BDI, however, at 2,708 points (as at 1 March 2006) is still, for good reason, approximately double its long term average and companies which bought their ships in earlier, lower markets continue to enjoy very profitable margins whilst the strong demand for bulk commodities persists.

CHAIRMAN'S STATEMENT

In our sector, the total number of new vessels on order for delivery from 2006 to 2009 represents just 9% of the existing fleet – much lower than the orderbooks for capesize, panamax and handymax ships which range from 19% to 24%. Almost a quarter of the handysize fleet is 27 years old or more, the age at which such ships in the past have been scrapped, and any sustained weakness in the market should see significant deletions. The limited newbuilding orderbook and advanced age profile of tonnage in this sector mean that owners of modern tonnage (Pacific Basin's handysize fleet average is less than six years old) should benefit from supply constraints for the foreseeable future.

Business Review

In this environment sale and purchase prices in 2005 remained firm in our sector, leading us to adopt a cautious approach to fleet expansion. We nevertheless grew from 51 owned, chartered and managed ships at the start of the year to 60 at the end of the year (including our orderbook of new vessels). With limited opportunities for asset purchases in 2005, we instead took some advantage of the strong market and low long term fixed interest rates to strengthen our Group's balance sheet by selling and leasing back 17 ships in addition to the seven which we sold and time-chartered back. These transactions have considerably reduced our exposure to operating risk on the seven vessels, and to possible future interest rate increases on all 24 vessels. They also raised proceeds which in part were used to repay all of our conventional bank borrowings. As a result, our year end 2005 balance sheet shows cash of US$84 million (before the anticipated final dividend of US$58 million) and a long term liability of US$317 million in respect of the 17 ships which we sold and leased back. The 17 owned vessels are debt free.

We now have the financial resources to meet capital expenditure commitments of US$162 million on the purchase of a second hand ship due for delivery in the third quarter of 2006 and on our six newbuildings under construction, to continue our policy of declaring substantial dividends and to acquire additional tonnage at the appropriate time.

Average revenue in 2005 for our handysize vessels, operated in the IHC Pool, was US$17,100 per day compared with US$17,900 per day in 2004. Although this represents a small decline, it would have outperformed time charter rates for the same period. We believe strongly in the merits of dealing directly with end-users of our ships and of the commodities that they carry, rather than foregoing operational margins by time-chartering our vessels to other operators, who then on-charter to such end-users. By focusing largely on the handysize sector and by adopting a disciplined approach to booking and executing cargo contracts, we believe we can achieve greater earnings stability (and operational consistency for our customers) than by endeavouring to exploit very short term market movements. These are the key tenets of the IHC Pool which we formed in 2001 and continue to manage via our network of offices around the world. The sophistication of our operation requires more intensive management, which in turn entails higher overheads. Providing competent representatives to engage in constructive dialogue with our customers to reach optimal freighting solutions leads to a superior service – in some cases even resulting in making new trades viable for them. Our aim must be to limit expenses overall by controlling the costs associated with our modus operandi without any significant loss of service and revenue.

CHAIRMAN'S STATEMENT

We rely upon very high operational standards at sea as well as ashore and believe that we should be able to improve further our performance and cost controls in this area, too. Our fleet offhire days due to technical and crewing issues in 2005 were higher than we had hoped and remedying this has been made a key priority for management to address.

Outlook and Prospects

In a freight market that was a little weaker in the last quarter of 2005 than expected, we nevertheless made good progress in building our cargo book. Based on our current fleet and scheduled deliveries, we expect to have approximately 14,800 handysize revenue days in 2006 (compared to 14,200 in 2005) and we now have cargo contracts in place for 61% of these days at an average rate of US$13,400 per day. As we execute the voyages for these cargoes in 2006, we should be able to improve this figure to yield an effective rate in excess of US$14,400 per day by combining front-haul and back-haul cargoes, reducing ballast voyages and by taking in supplementary tonnage to optimize returns on our dedicated fleet. There must also be future fleet expansion if suitable opportunities arise. We therefore look ahead to the remainder of the year with some confidence, whatever may be in store in terms of short term rates on the balance of the days. For 2007, we have 20% of our revenue days covered at satisfactory levels and we are expecting to add to this and to our 2008 contracts as the year progresses (The revenue days quoted are handysize only as these days are, for the time being, the primary drivers of our Group profits).

It is our objective to develop our business model and apply it successfully to other sectors. We are therefore encouraged that our efforts to deliver high quality handysize freight execution seem to have been recognised by some of our customers who now want a similar service for their handymax shipments. We have accordingly assembled a team of seasoned handymax professionals in our Hong Kong, London and Shanghai offices and are finding that this new activity dovetails well with, and introduces new clients to, our existing handysize business. This represents an area of significant growth potential, although in the short term we are likely to develop it as an operating activity rather than investing in asset ownership. Following the success of our IHC Pool concept, we have decided to launch a handymax pool under the brand name "IHX". This has already generated interest from a number of owners.

Our efforts to develop new business in China have also borne fruit with the signing of an agreement with a Chinese shipping company, backed by one of the largest domestic power producers, to manage jointly a handysize bulker (the vessel, referred to earlier, which we sold under a finance lease) for the carriage of coastal coal. We see very significant potential in China and have recently reinforced our already highly qualified team by hiring Mr. C. L. Wang, age 42, formerly Assistant President at Sinotrans, one of China's largest shipping and logistics Groups. Mr. Wang, whom we know well, will lead our business development programme. Following his appointment, in Hong Kong, a number of new initiatives and projects in China are under consideration.

In January 2006, we commenced a new operation in the Arabian Gulf to participate in the carriage of aggregates from Fujairah to ports in the Northern Gulf. This is a joint venture with the Government of Fujairah, among others. In view of the rapid economic development in this region, we are optimistic about the prospects for this venture.

CHAIRMAN'S STATEMENT

In Conclusion

Pacific Basin in its various manifestations has had relatively few changes in senior management over the years but, as announced in January 2006, Mr. Mark Harris, our Chief Financial Officer from 1994 to 1996, Regional Chief Executive from 2000 to 2002 and since then Group Chief Executive, will be leaving us at the forthcoming Annual General Meeting in April. His departure is in line with his and our longer term planning and he remains a shareholder. We would like to express our sincere thanks for his valuable contribution to the development of Pacific Basin, especially through our Public Listings in 1994 and 2004. Investor relations, on which we place considerable emphasis, is one of his areas of special interest and the Group is now covered by 13 equity research departments of international banks and broking companies who issue regular updates on Pacific Basin to their customers. We wish Mark well for the future.

Our Executive Deputy Chairman, Mr. Richard Hext, who has already been responsible for our operating and commercial activities for almost a year, will take on the title of Chief Executive Officer and direct responsibility for our investor relations. We have every confidence that he is the right man to lead the Group through the next phase of its growth and development. He is a highly experienced shipping professional, has spent many years in Asia in senior management and he is very enthusiastic about his role and the Group's prospects.

Mr. Hext will be succeeded as Deputy Chairman by Mr. Daniel Bradshaw, who is a former partner of Johnson Stokes and Master, a leading Hong Kong law firm, and was vice-chairman of the Hong Kong ShipOwners Association for nine years. Mr. Bradshaw shall be appointed as Deputy Chairman and as a non-executive Director at the conclusion of the Group's Annual General Meeting in April. We warmly welcome Mr. Bradshaw to the Group.

Pacific Basin's style of shipping is intensive and time-consuming and we would like to thank our staff for their hard work, dedication and commitment which once more have been responsible for so much of what we have done well. We are most fortunate to enjoy their exceptional loyalty and endeavour. There are still areas in which we can improve our performance and we shall be looking hard at refining and developing existing practices. We are confident that our management team will invest the effort required to achieve our goals.

In conclusion, we should like to thank you for your support during the year and to affirm our positive outlook for the future. We look forward with some confidence to the remainder of 2006.

Christopher R. Buttery
Chairman

Hong Kong, 6 March 2006

BUSINESS REVIEW AND OUTLOOK

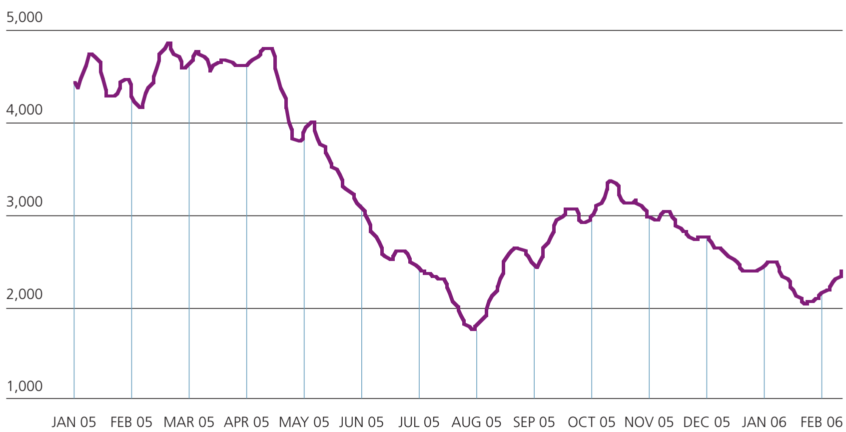
Market Review

Following the all-time highs recorded in the previous year, 2005 proved to be another very exciting year for dry bulk shipping, driven again by strong demand from China for raw material imports. The Baltic Dry Index (BDI), which tracks spot freight rates for capesize, panamax and handymax (but not handysize) vessels, opened the year at 4,500 points. Although this was down from the very short-lived record of 6,208 points in December 2004 caused by a surge in demand for Chinese iron ore imports, the 4,500 level still reflected extremely buoyant market conditions with all dry bulk vessels earning very high rates.

These conditions persisted until mid-April when the market moved into decline. Although cargo volumes remained high in absolute terms, Chinese iron ore imports slowed as the market shifted from "inventory build-up" ahead of the 71% price increase on 1 April to "inventory usage" in the second quarter. This coincided with the normal seasonal slow down in other bulk cargo volumes and a consequent easing in port congestion, and a 3.5% increase in the supply of new dry bulk ships during the first half of the year, mostly in the larger sizes. As a result, the BDI dropped by about 60% over the next four months, falling to a low of 1,747 in early August. As expected, the market then recovered with the BDI moving above 3,000 points as we entered the fourth quarter of 2005. This rally, once again prompted by a surge in Chinese demand for iron ore (which reached a new record of 27.2 million tonnes in November), proved to be relatively short-lived and the BDI finished the year at 2,400 points.

THE BALTIC DRY INDEX

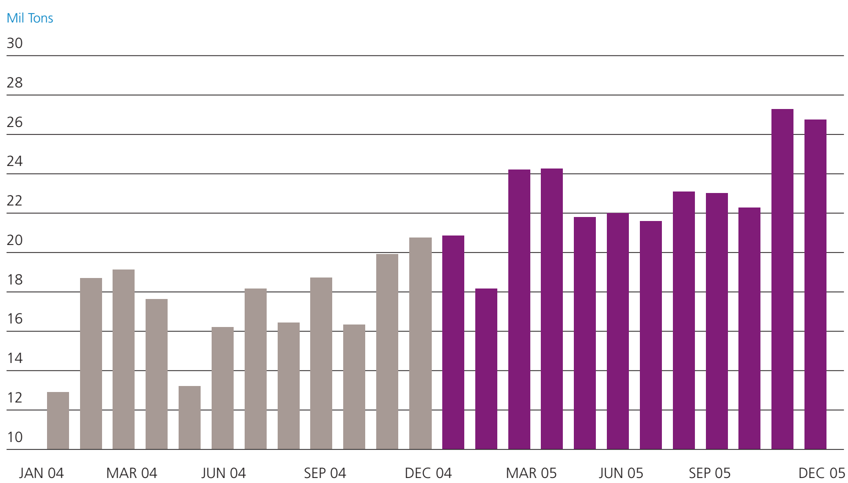
January 2005 to February 2006



(source: Bloomberg)

In the handysize market, rates have traditionally been much more stable than those for the larger vessels, whose spot earnings are tracked by the BDI. Handysize vessels generally benefit from a more diversified demand pattern due to the broader range of cargoes that they carry and a much lower level of newbuilding deliveries. 2005 was no exception and whilst rates followed the same overall pattern as the BDI they moved within a substantially narrower range. Spot rates of around US$18,000-20,000 per day were available for most of the first quarter and, in contrast to the 60% decline in the BDI, only fell to about

CHINA'S IRON ORE IMPORTS



(source: Bloomberg)

BUSINESS REVIEW AND OUTLOOK

US$11,000 per day in the slower summer period. From there rates recovered to US$15,000 per day before dropping back to about US$12,500 per day by the end of the year.

Returning to the overall market, its direction was mainly determined by the increasing supply of tonnage (on which more below) rather than by demand factors. The appetite for commodities not only remained strong but exceeded the record levels set in 2004. China dominated the iron ore market, effectively accounting for all of the net volume growth in 2005, with imports growing to 275 million tonnes in spite of the extraordinary 71.5% price hike that took effect from 1 April 2005. Whilst the volume increase of 32% was less than the 40% volume increase recorded in 2004, in absolute terms it represented an additional 70 million tonnes of cargo compared with the 60 million tonne increase a year earlier. Steel production in China continued to grow rapidly and annualised output for December 2005 was already running at over 380 million tonnes compared with 2005's actual production of just under 350 million tonnes. Regardless of the outcome of this year's iron ore price renegotiations, which will come into effect on 1 April 2006, we expect that China will again dominate iron ore import figures with the limiting factor on cargo growth likely to be production constraints as the major iron ore mining companies struggle to bring additional capacity on stream. The grain trades offered modest growth while coking coal and thermal coal showed healthy volume increases, with cargo volumes as a whole estimated to have grown by about 5% in 2005. The overall demand picture continues to look very healthy, with leading ship-broking analysts estimating cargo growth for 2006 in the region of 4-5%.

In contrast with the previous two years, when the supply side had been unable to respond to the pressure of rapidly rising demand, 2005 began to see a change. New vessels ordered in 2003 and 2004 started to deliver into the world's dry bulk fleet and over the year as a whole some 305 new vessels (23.2 million dwt) delivered, expanding the fleet by about 7%. With scrapping remaining at minimal levels, vessel supply growth exceeded demand growth for the first time since 2002. As expected, it was deliveries of the larger-sized vessels that dominated, with the capesize, panamax and handymax fleets each recording increases of 8-9%. In contrast, the handysize fleet grew by a little over 3%.

2005 Dry Bulk Fleet Changes

	Capesize			Panamax			Handymax			Handysize*		
	No	mm dwt	%	No	mm dwt	%	No	mm dwt	%	No	mm dwt	%
New deliveries	48	8.8	8.6%	92	7.1	8.2%	100	5.4	8.9%	44	1.4	4.0%
Scrapped	-2	-0.3	-0.3%	-3	-0.2	-0.2%	-3	-0.2	-0.3%	-9	-0.3	-0.8%
Net additions	46	8.5	8.3%	89	6.9	8.0%	97	5.2	8.6%	35	1.1	3.2%

Source: Clarkson Research

* *defined as 25,000–35,000dwt. Using Clarkson's wider definition of 10,000–40,000dwt, 65 ships of 1.9 million dwt delivered.*

BUSINESS REVIEW AND OUTLOOK

Whilst the new deliveries were sufficient to take the pressure off an overheated market and to reduce earnings, it should be remembered that rates continue to be supported at historically high levels providing owners who bought ships at the right point in the cycle with very good returns.

Events in the dry bulk sale and purchase market were rather different. Asset values had been moving up steadily during the latter part of 2004 in response to the much improved freight markets and tight supply conditions. Prices then surged in the first four months of 2005 in response to the strong freight market and purchase demand for ships spiralled upwards as a spate of newly created dry bulk companies sought public market listings in New York. By way of illustration, the price of a typical five year old panamax bulk carrier jumped 20% to over US$40 million between January and June 2005, even though prices had climbed some 45% during the second half of 2004 and freight rates were by then already on the way down.

From then on, values for second hand vessels and newbuildings came off their spring peaks, although in many cases this was notional rather than actual as transaction volumes, particularly of modern handysize bulk carriers, fell dramatically. It is only in the first two months of 2006 that we have seen asset values finally drop back to the levels seen in mid-2004, albeit with few transactions actually being concluded to confirm prices.

In the handysize market, prices also moved up sharply in the first quarter of 2005 , with a typical five year old 28,000dwt vessel reaching a price in excess of US$28 million at the peak in April/May. Due to the smaller order book and the older age profile of the world's handysize fleet, asset values have remained firmer than for larger vessels with very few modern ships coming onto the market for sale. A typical five year old 28,000dwt vessel is still likely to achieve a value in the region of US$23-25 million, some 10-15% higher than in late 2004 (in contrast to a five year old panamax being some 25% cheaper), despite freight rates being about 25% lower.

BUSINESS REVIEW AND OUTLOOK

As we look into 2006, much of the concern about the performance of the freight markets hinges on the size of the order book, which, before scrapping, is expected to expand the respective cape, panamax, handymax and handysize fleets in 2006 by 8%, 9%, 9% and only 3%, very similar to the levels seen in 2005. The actual performance of each of these sectors may well depend on how scrapping develops over the course of the year. Traditional scrapping patterns disappeared in 2003 with very little tonnage being sent for demolition in the last two years. Ships, however, are wasting assets. Their working lives can be extended at a cost in high markets but they cannot be kept going forever, no matter how good the economic environment and any further downward pressure on rates should result in an increase in scrapping activity. For the handysize market in particular, this provides a very significant underpinning as this is the sector where the average age of the fleet is the most advanced and where there are a lot of over-aged ships. There are now as many handysize ships over the age of 30 as there are ships on order and by the time those ships have delivered, another 15% of the fleet will have reached that milestone. Historically, the average age at which handysize vessels have been scrapped is 27.

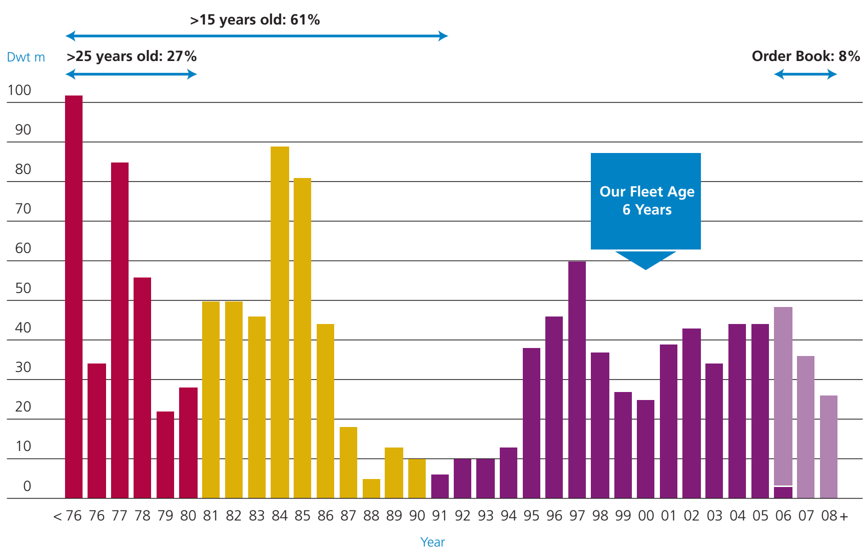
Order Book In Relation to Fleet Age Profile

	Orderbook (%)	Average Age	Vessels over 30	Vessels 25-29	Vessels 20-24	Total over 20 years
Capesize	23.9%	11.1	0.3%	1.1%	14.2%	15.5%
Panamax	22.8%	11.6	0.7%	4.2%	19.3%	24.2%
Handymax	18.7%	11.3	1.1%	4.5%	16.8%	22.4%
Handysize*	8.8%	17.7	8.4%	18.6%	26.1%	53.2%

Source: Clarkson Research

**defined as 25,000-35,000dwt*

SUPPLY: AGE PROFILE OF GLOBAL HANDYSIZE FLEET (within 25-35K segment)

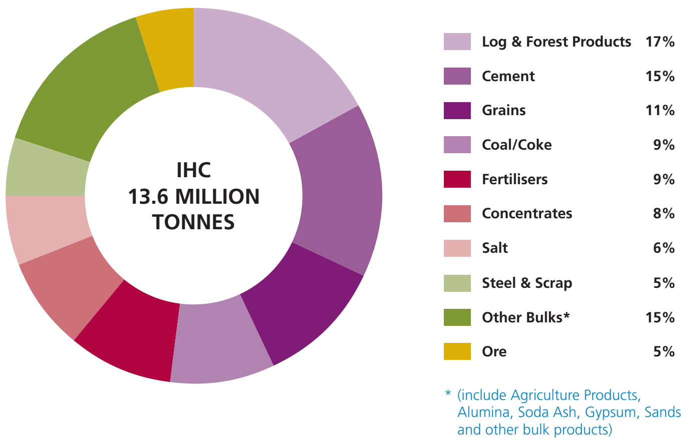


BUSINESS REVIEW AND OUTLOOK

Chartering and Cargo Operations

Pacific Basin specialises in offering freight services directly to the world's leading industrial and commodities companies. Our vessels carry a broad range of dry bulk goods, with forestry products, cement, grains, coal and petcoke, fertilisers and concentrates being the most significant, for a diverse group of customers who look to Pacific Basin for the safe, reliable and efficient management of the sea-borne leg of their supply chain logistics. To deliver this service it is essential that we operate a fleet of modern vessels of uniform size and design specifications supported by a comprehensive network of offices staffed by highly experienced industry professionals.

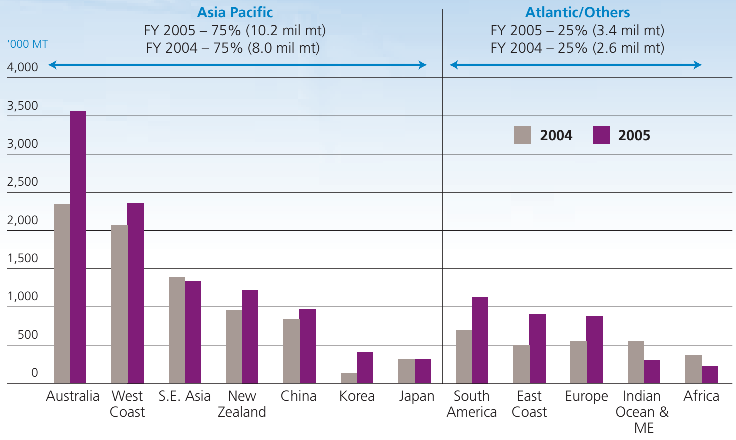
During 2005 our International Handybulk Carriers Pool ("IHC") carried 13.6 million tonnes of cargo, up 28% from the 10.6 million tonnes carried in 2004. We recorded good growth in the shipment of most commodities, particularly zinc/lead/copper concentrates and cement for the construction industries. The growth in the volume of metal concentrates we carried last year results from strong Asian demand coupled with closer relationships with the exporting mining companies, who prefer to ship their high value commodities on reliable modern ships, where no extra cargo insurance is incurred. In the cement trade we continue to see good growth in imports to the US due to strong demand and the fact that no new local cement production capacity of significance has been added in the last few years due to environmental concerns.



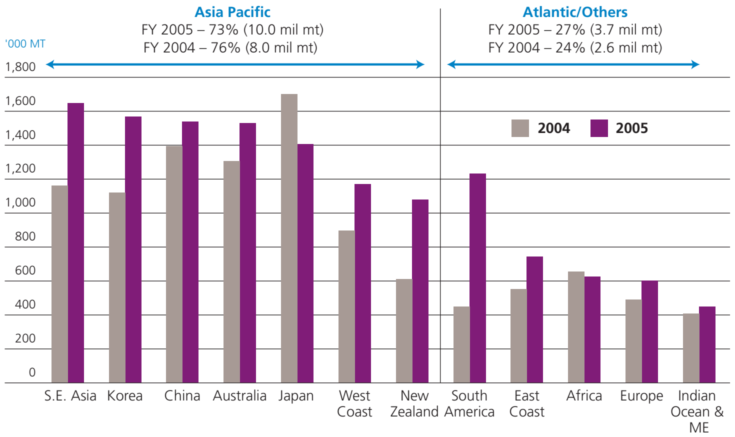
Our core business continues to be focused on ports in the Pacific with around 75% of our cargoes being loaded or discharged in this region. Ports in Australia, New Zealand and the west coast of North America account for over 50% of all cargoes loaded. Our ability to service the needs of our customers in these key front-haul jurisdictions, where environmental, safety and regulatory requirements are amongst the toughest in the world, without disruption or delay, is critical to our success. The 50% volume growth in our liftings from Australia which we recorded in 2005 was particularly encouraging as we expanded our customer base and the range of cargoes carried from that market.

BUSINESS REVIEW AND OUTLOOK

LOAD AREAS



DISCHARGE AREAS



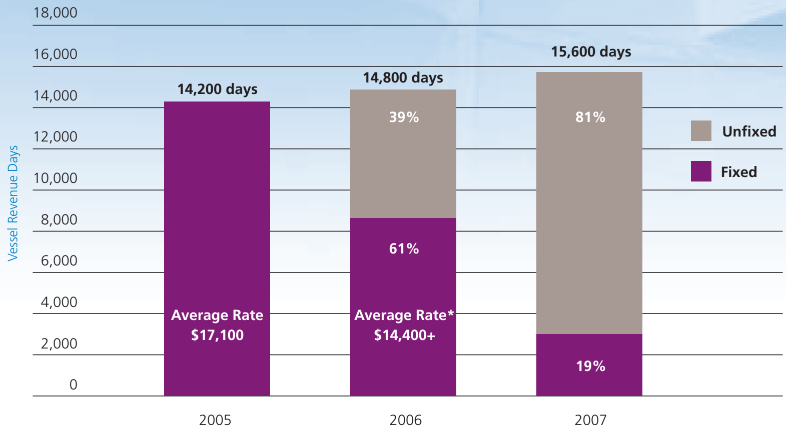
Although China dominated the headlines for the shipping market as a whole, it was one of many delivery destinations for our vessels, accounting for only 11% of total cargo discharged in 2005. Thus, while we are extremely optimistic about future volumes of cargo both into and out of China and expect our share of China trade to increase, our exposure to this market currently is modest. A reduction in the volumes we carried into Japan was more than offset by the expansion achieved in Korea as a result of our increasing market share of the Korean log and metal concentrates import trades. The reduced volume into Japan should be viewed in the light of our record volume in 2004 and Japan continues to be one of our largest delivery destinations.

An integral part of our Group's operating strategy is to carry back-haul cargoes whenever these can be successfully combined with front-haul cargoes to improve our overall fleet utilisation. We thereby enhance our revenues and are able to offer our customers more attractive rates because these voyages reposition our vessels back to our prime front-haul loading areas whilst carrying revenue-generating cargo, thus reducing the number of days the vessels spend in ballast. Successful scheduling of consecutive, cargo-carrying voyages whilst continuing to deliver a prompt and reliable service to our front-haul customers requires a high degree of planning and co-ordination between our regional offices and a high level of operational efficiency. This can only be achieved with a large fleet of standardised, modern vessels that afford the necessary level of scheduling flexibility. 2005 was another year of progress in this area as we expanded our deliveries of cargo into New Zealand, Australia, south-east Asia and the west coast of North America by some 1.5 million tonnes. We now estimate that our ships are carrying cargo 86% of the time at sea, up from 84% in 2004. At the same time, however, it is essential that we maintain a tight grip on the overhead base that we carry relative to the service level we provide and we aim in 2006 to reduce our expenses overall without penalising our service offering.

With an average of 39 handysize vessels in operation during the year, the fleet produced 14,200 revenue days generating average earnings of US$17,100 per day, compared with an average of 27 handysize vessels in operation during 2004 which provided 9,900 revenue days generating average earnings of US$17,900 per day. The ability to achieve relatively steady average revenues on an expanded fleet reflects the greater stability that prevails in the handysize market and the advantages derived from our policy of booking cargo contracts for a significant portion of our forward revenue days. This business model means that we do not always receive the highest revenues for certain cargo contracts, scheduling and routings taking precedence over rates on a number of occasions.

BUSINESS REVIEW AND OUTLOOK

During 2005, we incurred 5.7 days per vessel of offhire in respect of our handysize fleet relative to 5 days budgeted. We have taken steps to strengthen our management team in this area and made it a key management task to reduce such offhire.



* Includes an estimate of the uplift to be achieved above the basic contract rates from efficient cargo execution

For 2006, the current handysize fleet (with no allowance for any potential fleet expansion) is expected to provide 14,800 revenue days, up 4.2% from 14,200 days in 2005 as three newbuildings deliver into the fleet during the year. As at 24 February 2006 we have charter and cargo contract cover in place for 61% of those days at an average rate of US$13,400 per day. This rate only reflects the averaging of the basic rates in the underlying contracts and we would expect to achieve in excess of US$14,400 per day on our contract-covered revenue days once the US$1,000-1,500 per day benefit of reducing ballast time through the efficient combination of cargoes and front-haul and back-haul voyages has been included. Furthermore, our handysize revenue days expand by 5.4% to 15,600 in 2007, where we already have cover in place for 20% of those days, and by a further 9.6% to 17,100 days in 2008 where our cargo book is just beginning to emerge. Again, this only reflects the fleet today and newbuildings currently on order and does not take into account any potential additional expansion that might be undertaken.

Towards the end of the year, we took steps to establish our presence in the handymax market. This move was in response to an increasing number of requests from our handysize customers to provide a similar level of service for those of their other cargoes that are suited to handymax vessels. To meet this need, we have established a team of seasoned chartering and operations personnel in our Hong Kong, Shanghai and London offices. In the short term, this activity will be run as an operating business by taking cargo contracts that are then performed by chartering vessels from the market supported, where appropriate, by the limited use of freight futures agreements to manage the overall balance between ships and cargo. We booked our first contract of affreightment and chartered in two vessels for one year and two vessels for three months in December, and have subsequently taken an additional two short period vessels. At the same time we have taken in a number of cargo contracts so that our overall year-end position was that we had more cargo than ships on our books. As our activities in this area are in their start-up phase our initial objectives are to establish our position and credentials in the market. It is therefore likely to be some time before we have sufficient long term cargo contracts to support the need to purchase handymax vessels. We have been encouraged by several recent approaches by handymax owners who are interested in potential co-operation with us. Following the success of the IHC Pool, we have therefore decided to establish a handymax pool under the brand name "IHX".

In October we entered into an agreement with a Chinese shipping company, backed by one of the largest power producers in China, to charter one of our older handysize vessels, the Stewart Island, to them for use in the carriage of domestic coal. The vessel is 10 years old and has been bareboat chartered out for almost eight years: the transaction is accounted for as a sale. We believe that this is the first time a foreign owned bulk carrier has been chartered into a Chinese flag, coastal trade and

BUSINESS REVIEW AND OUTLOOK

this marks the beginning of what we anticipate will be greater access for us as an international company into Chinese domestic commodity trades. Given that this vessel is now deployed on long-term bareboat charter, rather than in our IHC Pool activities, this vessel is now excluded from the statistics quoted on handysize fleet revenue days and average rates.

We see real opportunity to develop our business in the Middle East. In July, we decided to dedicate two vessels to operate in a new service between Australia/New Zealand and the Arabian Gulf. This resulted in a number of new contacts for us and in January 2006 we established a joint venture with the Government of Fujairah, among others, to operate a business carrying aggregates from Fujairah to ports in the northern gulf. This is initially a handysize business but has the potential to become a handymax business in future. We see a number of new opportunities ahead.

Fleet Development

At the start of the year, the Group operated a fleet of 45 vessels (comprising 44 handysize vessels and one handymax vessel) and we had a further six newbuildings on order (five handysize and one handymax). At that stage we had hoped that we would be able to expand the fleet by making a number of vessel purchases but, for reasons explained in the Market Review above, asset values moved up very sharply in the first quarter and we decided not to buy vessels unless there were special circumstances. In the event we only acquired four second hand vessels (of which one delivers in the third quarter of 2006), each in private, off-market transactions where we were able to leverage our relationships with Japanese owners. We also took delivery of two handysize and one handymax newbuildings during the year. With charters expiring on two vessels, our fleet in operation at year end had therefore increased by five vessels or 11% to 50 vessels , comprising 48 handysize and two handymax. Although this fleet expansion was lower than our original target, asset values in 2005 were too high and we believe the right course of action was for us to be patient, conserving our shareholders' funds for times when asset values are cheaper and will therefore provide superior long term returns.

First class service to our customers backed by our large fleet of modern, uniform vessels is a critical part of our handysize operating strategy. With an average age of six years, we believe that ours is the largest fleet of modern, handysize vessels in the world. To maintain this pre-eminent position, we extended our newbuilding programme by placing orders for six new handysize vessels and taking a seventh vessel on long term charter from the date of her delivery in February 2006. Three of these vessels are being constructed at the traditional yards for this vessel type in Japan and will add to our core fleet sizes of 28,000dwt and 32,000dwt.

Significantly, however, we also placed an order with Jiangmen Nanyang Shipyard in southern China for four, very competitively priced 32,000dwt vessels with options over two more, with the first scheduled to deliver in early 2008. This is the first time in ten years that we, as a management team, have chosen to order handysize vessels in China and follows more than two years of work in identifying a yard that has both the willingness to build handysize bulk carriers to international standards and the financial strength to meet our requirements for first class vessels at attractive prices.

Accordingly our newbuilding order book at 31 December 2005 stood at ten vessels, with three delivering in each of 2006, 2007 and 2008 and one in early 2009 which allows us to continue our steady fleet expansion and maintain our characteristic modern, uniform fleet profile.

BUSINESS REVIEW AND OUTLOOK

Fleet Changes	Owned	Chartered	Managed	Total
Handysize – in operation				
As at 1 January 2005	33	7	4	44
Newbuildings delivered	2	–	–	2
Second hand purchases[#]	4	–	–	4
Sale and charter-back	(22)	22	–	–
Charters expired	–	(2)	–	(2)
As at 31 December 2005	17	27	4	48
Handysize – newbuildings				
As at 1 January 2005	4	1	–	5
Newbuildings delivered	(2)	–	–	(2)
Sale and charter-back*	(2)	2	–	–
New orders	6	1	–	7
As at 31 December 2005	6	4	–	10
Handymax – in operation				
As at 1 January 2005	1	–	–	1
Newbuilding delivered	1	–	–	1
Sale and charter-back	(2)	2	–	–
As at 31 December 2005	–	2	–	2
Handymax – newbuildings				
As at 1 January 2005	1	–	–	1
Newbuilding delivered	(1)	–	–	(1)
As at 31 December 2005	–	–	–	–
Total Fleet at 31 December 2005	23	33	4	60

* *Transactions will be effected on vessel delivery, expected to be in November 2006 and August 2007, at which point the vessels will be treated as sold for accounting purposes*

[#] *Includes one vessel for delivery in the third quarter of 2006*

During the year we also undertook a significant restructuring of the fleet's financing arrangements through a programme of selling and chartering back vessels. Transactions covering 22 handysize vessels and both handymax vessels were completed, of which 17 are classified for accounting purposes as finance leases and seven are classified as operating leases. Our 17 sale and leasebacks raised cash proceeds of US$318 million accompanied by lease liabilities of the same amount which will be paid down over the life of the leases, and our seven sale and time-charter backs raised proceeds of US$140 million which we used to pay down our conventional debt. As a result, all the ships in the owned fleet as well as the installments to date on our six owned newbuildings are debt free. Total capital commitments in respect of the remaining payments on these six ships and on 'Ocean Bulker' (a second hand 28,500dwt vessel which joins the fleet in the third quarter of 2006), are US$159 million. In addition, transactions for the sale and time-charter back of two handysize newbuildings have been completed and these vessels will treated as sold for accounting purposes from their respective delivery dates, expected to be in November 2006 and August 2007.

BUSINESS REVIEW AND OUTLOOK

Whilst these transactions have allowed us to release substantial amounts of capital back into the business we have, at the same time, been able to preserve the scale and profitability of our operations as the vessels have been chartered back for periods of up to 12 years at rates that are competitive with the cost of ownership. Furthermore at the end of December 2005, we held options to purchase 24 of the 27 chartered handysize vessels, both of the chartered handymax vessels and all four of the chartered newbuildings. These options should hold significant hidden value for the Group by allowing us to preserve our fleet size and the scale of operations at the expiry of the charters and the same level of flexibility to manage the size and structure of the fleet during the period of their charters as if we had remained the owner of these vessels.

All 48 owned, chartered and managed handysize vessels are now operated through our IHC Pool and it is expected that our handysize newbuildings will expand this service when they deliver. Our two handymax bulk carriers remain on long term charter to a major Chinese shipping company. Having sold and chartered them both back, all of the capital invested in those vessels has been released whilst leaving the company essentially cashflow neutral from an operating perspective.

Dividends

The Group's policy to pay out by way of interim and final dividends not less than 50% of profits available for distribution in each financial year, and more than this when circumstances permit, remains unchanged. The Board is therefore recommending a final dividend of 35 HK cents per share for the year ended 31 December 2005 (2004: 16 HK cents) to be paid on 13 April 2006 to the shareholders of the Company whose names appear on the register of members on 7 April 2006. The register of members will be closed from 4 to 7 April 2006 (both days inclusive) during which period no transfer of shares will be affected. 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 3 April 2006. The ex-dividend date for the final dividend will be on 31 March 2006.

When the proposed final dividend of 35 HK cents per share is aggregated with the interim dividend of 30 HK cents per share (2004: 8 cents per share), the total payout of 65 HK cents per share (2004: 24 HK cents) represents 73% of the Group's profits for the year ended 31 December 2005 (2004: 56%). The distribution of an additional 23% of profits above the 50% minimum payout level is equivalent to 20 HK cents per share and reflects the strong results of the Group for the year, the financial strength of the business following the sale and charter back programme and the certainty over 2006 revenues that is derived from the level of cargo cover already arranged.

Retained profits carried into 2006 (after allowing for the proposed final dividend) are US$68 million and equate to approximately 41 HK cents per share given the current level of issued share capital. Based on this and on the level of committed revenues for 2006, the Board believes that the Company should be able to continue to declare dividends above the 50% pay out level in 2006 and 2007 and believes that it is reasonable to expect such dividends in 2006 will be not less than 40 HK cents per share in aggregate, although the exact level of payout will depend on the results and overall financial position of the Group at the time dividends are declared.

Outlook and Prospects

In comparison with the exuberance of 2004 and 2005, the dry bulk market overall started 2006 in more subdued fashion with uncertainty over the outcome of the current iron ore price negotiations and both the iron ore producers and the Chinese importers engaging in propaganda warfare. That

BUSINESS REVIEW AND OUTLOOK

said, rates in the handysize market, whilst down on this time last year, have been very profitable, with recent Pacific spot market rates in excess of US$13,000 per day.

The fundamental demand factors that have driven the market for the last two years still appear to be intact. The recent rises in US dollar interest rates are symptomatic of a world economy that is strong and growing. Beyond this, the rate of development of China's own internal infrastructure and its position as the world's out-sourced manufacturing base continues to impress and this should support a good volume of dry bulk commodity shipments. We remain very confident about China and the demand picture for bulk shipping.

On the supply side, all the key sectors of shipping (tanker, container and dry bulk) continue to order new tonnage such that shipyard order books remain full for the next three years. Whilst this means that the risk of unexpected, additional supply coming into the dry bulk market is small, the current order book of new deliveries in 2006 for larger dry bulk vessels is still likely to mean that rates on average are lower than those achieved in 2005. But for the handysize market, the situation is arguably more positive. Although there will be some psychological pressure on rates from the larger sizes, 102 handysize ships are now over 30 years of age and a further 225 ships are over 25 years of age with only 36 ships due for delivery in 2006. Any meaningful downward pressure on rates should be tempered by the renewal of scrapping and prevent any sustained downturn.

Meanwhile we are maintaining our policy of taking cover for a substantial portion of our available revenue days to preserve stability and predictability in our operating revenues and cashflows and 61% of our revenue days for 2006 are covered at rates which, upon execution, should yield in excess of US$14,400 per day. A relatively small remaining exposure to the spot market, a fleet of modern ships and a blue chip customer base allows us to have a high degree of confidence about our 2006 performance.

Without any further purchases, our current newbuilding programme means that our fleet will grow by 20% over the next three years. In addition, our sale and leaseback programme has released a significant amount of capital back into the business and given us the platform to expand the fleet further when we feel that asset prices support acceptable long term returns. Such expansion could be achieved without using our operating cashflows and would therefore have no impact on our ability to maintain a strong policy of dividend distributions.

The likely performance of the dry bulk freight market in 2006 overall in the face of substantial newbuilding deliveries is less predictable than has been the case for the two previous years and periods of softer rates which may also affect our sector cannot be ruled out. However, the economies of China and India continue to develop and, as Japan's economy emerges from a long period of weakness, we are confident that strong demand will remain a feature of dry bulk shipping. In the handysize sector, the average age of the world fleet, at 18 years, is the oldest of any sector of dry bulk shipping, there are many over-age ships that need to be scrapped and too few new ships on order to replace them. The world's shipyards prefer to build larger or more complex ships and we do not see this issue being resolved in the near future. When scrapping returns, as it must, supply growth will be minimal or there could be a return to periods of net fleet reduction. We are therefore of the opinion that the handysize market offers the best and most reliable long term returns of any sector of dry bulk shipping, although it is unlikely to be immune from possibly negative influences of the overall market from time to time.

Given the success of our operating model, our fleet of uniform, modern handysize bulk carriers, the supply constraints existing in the handysize bulk carrier market and the strength of our balance sheet, we look forward with confidence to 2006.

FLEET LIST (as at 28 February 2006)

Handysize

Owned Fleet – 17 Vessels		dwt (mt)	Year of Delivery
1	Mount Rainier	32,816	2005
2	Tasman Sea	28,456	2001
3	Hawke Bay	28,460	2001
4	Captain Corelli	28,379	2001
5	Ocean Bulker (tbrn Willow Point)Δ	28,492	2001
6	Kiwi Trader	31,879	2000
7	Pacific Logger	31,877	2000
8	Gold River	32,973	1999
9	Castle Peak	28,545	1997
10	Flinders Island	27,414	1996
11	Abbot Point	27,411	1996
12	Lake Joy	28,251	1996
13	Yin Xiu	28,730	1995
14	Oak Harbour	28,760	1995
15	Patagonia	27,860	1995
16	Ocean Logger	28,429	1994
17	Amazonia	28,475	1994

Δ *to be delivered by September 2006*

Chartered Fleet – 28 Vessels		dwt (mt)	Year of Delivery
18	Duncan Bay*	28,414	2006
19	Port Alice*	31,871	2005
20	Cook Strait*	31,894	2004
21	Cape Flattery*	28,433	2004
22	Port Pegasus*	32,774	2004
23	Timaru Star*	31,893	2004
24	Port Kenny*	28,449	2004
25	Sun Ruby*	32,754	2004
26	Portland Bay*	28,446	2004
27	Black Forest*	32,751	2003
28	Mount Travers*	28,483	2002
29	Mount Fisher*	28,473	2002
30	Ocean Exporter*	28,461	2002
31	Albany Sound*	28,379	2002
32	Cape Nelson*	28,438	2001
33	Port Botany*	28,470	2001
34	Cape York*	28,471	2001
35	Columbia River*	28,527	1998
36	Castle Island*	28,759	1997

FLEET LIST (as at 28 February 2006)

Chartered Fleet – 28 Vessels		dwt (mt)	Year of Delivery
37	Cape Scott*	28,747	1997
38	Cape Spencer*	28,799	1997
39	Eastern Star	28,437	1997
40	Silver Bay*	26,516	1997
41	Pitt Island*	28,611	1997
42	Port Pirie*	27,408	1997
43	Shinyo Challenge*	27,940	1996
44	Ocean Star	28,499	1993
45	Enforcer	26,388	1992

Managed Fleet – 4 Vessels		dwt (mt)	Year of Delivery
46	Great Concord	24,159	1999
47	Great Creation	27,383	1998
48	Torm Arawa	27,827	1997
49	Torm Pacific	27,802	1997

Newbuildings on Order – Handysize

Owned Fleet – 6 Vessels		dwt (mt)	Year of Delivery
50	Imabari Hull 506 tbn Juniper Beach	28,100	2007
51	Kanda Hull 491 tbn Crescent Harbour	32,000	2007
52	Jiangmen Hull 101	32,500	2008
53	Jiangmen Hull 102	32,500	2008
54	Jiangmen Hull 103	32,500	2008
55	Jiangmen Hull 104	32,500	2009

Chartered Fleet – 3 Vessels		dwt (mt)	Year of Delivery
56	Kanda Hull 479 tbn Union Bay*	32,000	2006
57	Imabari Hull 507 tbn Cape Knox*	28,000	2006
58	Imabari Hull 503 tbn Port Angeles*	28,100	2007

Handymax

Chartered Fleet – 2 Vessels		dwt (mt)	Year of Delivery
59	Xiamen Sky*	53,605	2005
60	Xiamen Sea*	53,589	2004

* *The Group has the option but is not committed to purchase these vessels under the terms of their charter.*

DIRECTORS, SENIOR MANAGEMENT AND KEY STAFF

Executive Directors

Christopher R. Buttery
age 55,
Chairman

Mr. Buttery has over 30 years of experience in the shipping industry. He graduated from University College, Oxford University in 1971 with a Masters degree in Modern History. He first joined Jardine, Matheson & Company Limited and progressed through various shipping-related corporate assignments in Hong Kong, Taiwan, and Japan, becoming a Director of Jardine Shipping Limited in 1979 after completing the London Business School Executive Programme. 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 served as a director of Jardine Fleming Japanese Smaller Companies Limited (listed on The London Stock Exchange) and is also a director of The Ton Poh Emerging Thailand Fund.

Richard M. Hext
age 48,
Deputy Chairman

Mr. Hext has lived in Asia for 29 years and has been in shipping for over 27 years. He graduated from Worcester College, Oxford University in 1978 with a Masters degree in Modern History and Economics and has since attended executive programmes at INSEAD, Oxford University and Stanford University. He served with John Swire & Sons Limited from 1978 to 2000 during which time he held senior management positions with a number of Swire subsidiaries and joint ventures including P&O Swire Containers in Australia, Steamships Trading in Papua New Guinea, Swire Pacific Offshore in the United Arab Emirates and in Qatar and The China Navigation Company Limited in Hong Kong where he was Managing Director from 1996. From early 2000 he was a director of John Swire & Sons (HK) Limited which controls a number of Hong Kong companies including Hong Kong-listed Swire Pacific Limited. He also served on the boards of Modern Terminals Limited, Hong Kong Salvage and Towage and Hong Kong United Dockyards. From late 2000 to early 2003, Mr. Hext was Chief Executive Officer of LevelSeas Limited, a UK-based B2B internet start-up whose purpose was to help take online the seaborne freight dealings of its shareholders (including BP, Shell, Rio Tinto, BHP Billiton, Clarksons and Cargill) and their counterparties. From 2003 until early 2005 he served as Chief Executive Officer of the Marine Services Division of V Ships, which is the world's largest ship management group.

Mr. Hext joined Pacific Basin's senior management team and the Board as Executive Deputy Chairman in Hong Kong in early April 2005 with responsibility for the running of the Group. Mr. Hext will assume the position of Chief Executive Officer from the conclusion of the 2006 Annual General Meeting.

Mark M. Harris
age 45,
Group Chief Executive

Mr. Harris has worked in Asia for over 16 years. He graduated from the University of Nottingham in 1981 with a first class honours degree in Economics and joined Arthur Andersen & Co., qualifying as a chartered accountant in 1984. In 1989 he moved to AIA Acquisition Funding in Hong Kong and in 1990, he became Vice President and then a partner of Asian Capital Partners Limited. 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 re-joined 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.

Mr. Harris will resign as an executive director and as Chief Executive Officer with effect from the conclusion of the 2006 Annual General Meeting.

DIRECTORS, SENIOR MANAGEMENT AND KEY STAFF

Paul C. Over
age 49,
Managing Director, UK

Mr. Over has over 25 years of experience in the shipping industry. He joined the London shipbroking company of Eggar Forrester Ltd. in 1976 as a trainee shipbroker after gaining experience at sea with Kristian Jebsen A/S. He then joined Jardine, Matheson & Company Ltd., transferring to Hong Kong in 1980 to become the chartering manager for Jardine Shipping Ltd. He left Jardine in 1984 to join Continental Grain Company in Hong Kong. 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 Shipping (UK) Limited and is responsible for overseeing the Group's chartering and operations' activities. He is a director of The London Steam Ship Owners' Mutual Insurance Association.

Non-executive Directors

Lee Kwok Yin, Simon
M.B.E., J.P.
age 78

Mr. Lee is Chairman of the Sun Hing Group of Companies, which was established in 1945 and is involved in shipping, insurance, warehousing, transportation and real estate investments 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 of Commerce. He has been a director of Pacific Basin since 1998 and a director of Wing Hang Bank since 1991. Mr. Lee will be awarded an Honorary Degree by the University of Hong Kong as a Doctor of Social Sciences in March 2006.

Brian P. Friedman
age 50

Mr. Friedman graduated from the Wharton School of Business (University of Pennsylvania) in 1977 with B.S. and M.S. in Economics and from Columbia University School of Law in 1980. He has been President of Jefferies Capital Partners and its affiliated entities since 1997. He is also 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 Jefferies Group, Inc. and as a director of various private companies in which Jefferies Capital Partners or its affiliates have an interest.

James J. Dowling
age 60

Mr. Dowling has been a senior advisor of Jefferies Capital Partners 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.

Mr. Dowling resigned from the Board in April 2005.

Daniel R. Bradshaw
age 59

Mr. Bradshaw will be joining the Board as a non-executive director and Deputy Chairman at the conclusion of the 2006 Annual General Meeting. He graduated from Victoria University of Wellington (New Zealand) with a Bachelor of Laws (1969) and a Master of Laws (1971) and has been admitted as a solicitor in New Zealand, England and Hong Kong. Since 1978 he has worked at Johnson, Stokes and Master, from 1983 to 2003 as a partner and from 1996 to 2003 as head of the firm's shipping practice and since 2003 as a consultant. Mr. Bradshaw was Vice Chairman of the Hong Kong Shipowners' Association from 1993 to 2001 and he was a member of the Hong Kong Port and Maritime Board until 2003. He is currently a member of the Maritime Industry Council of Hong Kong and is on the board of Euronav, a Euronext listed tanker company.

DIRECTORS, SENIOR MANAGEMENT AND KEY STAFF

Independent Non-executive Directors

Robert C. Nicholson
age 50

Mr. Nicholson graduated from the University of Kent in 1977. He 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 Stock Exchange. In November 2005, he became a non-executive director of India Capital Growth Fund Limited which is listed on the AIM market of the London Stock Exchange.

Patrick B. Paul
age 58

Mr. Paul graduated from St. John's College, Oxford University in 1969 and is a qualified accountant. In a 33 year career with PricewaterhouseCoopers (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 59

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.

DIRECTORS, SENIOR MANAGEMENT AND KEY STAFF

Senior Management

Andrew T. Broomhead

age 44,
Chief Financial Officer and Company Secretary

Mr. Broomhead graduated from Emmanuel College, Cambridge University in 1982 and holds a Masters degree in Natural Sciences. He is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. His experience has been gained with Deloitte, Haskins & Sells, Samuel Montagu & Co., International Finance Corporation, Bakrie Investindo and Sanwa International Finance. He has been based in the UK, America, Singapore, Indonesia and Hong Kong, and has worked in Asia for over 12 years. He joined Pacific Basin in April 2003 as the Group's Chief Financial Officer and Company Secretary.

Jan Rindbo

age 31,
General Manager, IHC Pool

Mr. Rindbo graduated from Naestved Business College in Denmark in 1993. In 1994 following his military service, he joined Torm, 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 with Torm 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. He is responsible for the chartering and commercial operations of handysize vessels through the IHC Pool.

Wang Chun Lin

age 42,
Director, Group Business Development

Mr. Wang graduated from the University of International Business and Economics in Beijing in 1986 and has since attained an MBA degree from Murdoch University in Australia and an MSc degree in International Shipping and Transport Logistics from the Hong Kong Polytechnic University. Mr Wang has been in shipping since joining the Sinotrans Group in Beijing in 1986. From 1993 to 1995, he served as Managing Director of Sinotrans' joint venture International Container Leasing Company Ltd. In 2002, he was promoted to Assistant President of Sinotrans Group and Managing Director of Sinotrans Shipping Limited. In 2005, he joined IMC Group where he was a director of IMC Pan Asia Alliance Pte. Ltd and Managing Director of IMC Shipyard and Engineering Ltd. Mr. Wang joined Pacific Basin on 1 March 2006 with responsibility for group business development.

D. Jeffery Phillips

age 53,
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 as Chief Operating Officer.

Mr. Phillips resigned in October 2005.

DIRECTORS, SENIOR MANAGEMENT AND KEY STAFF

Key Staff

Ian Dalgleish
age 45,
General Manager,
Melbourne

Mr. Dalgleish graduated from the Australian Maritime College in 1983. He is a master mariner and sailed with BHP on a variety of dry cargo vessels before joining BHP's chartering team in 1993. He moved to Chile as Shipping Manager for Minera Escondida in 1996 and then to Venezuela as shipping manager for Orinoco Iron in 2000 before returning to Australia to manage the Handy Pacific desk for BHP Billiton. Mr. Dalgleish joined Pacific Basin in 2004 to establish the Group's IHC office in Melbourne where he is General Manager.

Kristian Helt
age 28,
Chartering Manager,
Vancouver

Mr Helt graduated from Svendborg Business College in 2000 and joined Scanbroker, a shipbroking firm in Copenhagen where he gained experience in the handysize sector. He joined Pacific Basin in Hong Kong in 2002 with responsibility for the Company's chartering activities on the West Coast of North and South America. Mr. Helt relocated to Vancouver in 2005 to establish Pacific Basin's Vancouver office and he continues to be responsible for the Group's chartering activities in the Americas.

Morten H. Ingebrigtsen
age 44,
General Manager, Sale and Purchase

Mr. Ingebrigtsen graduated from the Norwegian School of Management in 1986 with a Masters degree in General Business. He started his career with major Norwegian shipping group Wilh. Wilelmsen 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 and newbuilding activities.

Chanakya Kocherla
age 48,
General Manager,
Technical Operations

Mr. Kocherla graduated from the Directorate of Marine Engineering Training, India in 1978 with a first class degree in Marine Engineering. After four years at sea, he 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 Pacific Basin 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.

Ben Lee
age 51,
President, Pacific Basin Shipping Consulting (Shanghai) Ltd.

Mr. Lee graduated from the University of International Economics & Trade, Beijing in 1978 and has since attained an EMBA from the China-Europe International Business School. For over 25 years, he 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 administrative responsibility for the Group's China-based activities and is engaged in China-related business development.

DIRECTORS, SENIOR MANAGEMENT AND KEY STAFF

Charles Maltby

age 34, General Manager, Chartering and Freight Trading, UK

Mr. Maltby graduated from the University of Plymouth, UK in 1992 with a BSc in Maritime Business (International Shipping & Maritime Law). He began his shipping career with Mobil shipping in London in 1992 before joining the chartering team of BHP Transport in 1996. Following three years in Australia as Senior Chartering Officer responsible for handysize and handymax chartering, he returned to London in 2000 to take up a senior capesize and panamax chartering position and, in 2001, moved to the Hague to establish the handysize/handymax chartering and trading desk for BHP Billiton. Mr Maltby joined Pacific Basin in London in November 2005 to expand the handymax activities of the Group. He is a member of the Institute of Chartered Shipbrokers.

Yoshimi Ohsasa

age 55, Chief Representative, Tokyo

Mr. Ohsasa graduated from the Tokyo University of Mercantile Marine in 1975 before joining the tanker division of The Sanko Steamship Co., Ltd. In 1983 he joined Uemura Kaiun Shokai in Tokyo and in 1991 he took a position with ORIX Maritime Corporation where he focused on handysize chartering and operations. From 1995 to 1997, Mr. Ohsasa worked in Singapore as Chief Representative of ORIX and established ORIX's Singapore-flagged fleet. He transferred to ORIX Corporation Marine and Projects, handling ship finance deals and mortgage loans. In May 2005, Mr. Ohsasa joined Pacific Basin's office in Tokyo where he serves as Chief Representative.

Danish Sultan

age 45, Managing Director, PacMarine Services

Mr. Sultan started his career at sea rising to the rank of Master before joining PacMarine Services 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 the Chartered Institute of Logistics and Transport.

William Y.S. Williams

age 64, General Manager, Commercial Operations

Mr. Williams graduated from the New York Maritime College with BSc and MSc degrees in Transportation in 1963. He joined Marine Transport Lines, 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.

Wong Tshun Meei

age 28, Manager, Corporate Communications and Investor Relations

Ms. Wong graduated from the University of Manchester in 2000 with a degree in Economics, Accounting and Finance. She joined SG Securities in 2001 as a member of the research team in Malaysia and was subsequently relocated to Hong Kong to join SG's regional research team. She joined Pacific Basin in Hong Kong in June 2003, and is the manager responsible for corporate communications and investor relations.

FINANCIAL REVIEW

Introduction

On 1 January 2005, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "new HKFRS") came into effect. The resulting changes in accounting treatment and presentation of various profit and loss and balance sheet items may render certain comparative figures not strictly comparable. Details of changes are shown in Note 2.2 to the audited consolidated accounts of this Annual Report.

The Company undertook a reorganisation during 2004 in the preparation for the listing of the shares of the Company. The Group's profit and loss account for the twelve months ended 31 December 2004 therefore consists of:

(a) Results for the twelve months ended 31 December 2004 in the case of the companies pursuant to the transfer of PB Vessels Holding Limited and all its subsidiaries into the Company through an exchange of shares, as detailed in the prospectus of the Company dated 30 June 2004 (the "Prospectus"); and

(b) Consolidated results for the nine month period from 1 April to 31 December 2004 for certain vessel holding companies and ship management companies as set out in the Prospectus.

Review of Income

The Group is principally engaged in the provision of dry bulk shipping services through the operation of a fleet of vessels. During the year ended 31 December 2005, turnover was US$433.7 million as compared with 2004 of US$302.2 million. Time charter equivalent earnings were US$264.7 million as compared with 2004 of US$188.9 million. Net profit attributable to shareholders increased to US$147.1 million from US$103.6 million in 2004.

Turnover includes revenues earned from all the vessels in the IHC Pool, including the managed vessels, and is shown gross of voyage-related expenses. Approximately 97.4% of turnover was generated from the employment of the Group's owned and chartered fleet and the remaining 2.6% was generated from the provision of commercial and technical management services for third party vessels and revenues from marine services businesses. Voyage-related expenses relate primarily to commissions, ships' bunkers, port-related costs and short term hire expenses of chartered-in vessels. IHC Pool paid to other pool members freight and charter-hire net of voyage-related expenses which were calculated based on the number of pool points attributable to the vessels participating in the pool owned by the other pool members. The total amount of voyage-related expenses and the amounts payable to other pool members deducted from turnover was US$169.0 million (2004: US$113.4 million), resulting in time charter equivalent earnings for the Group of US$264.7 million (2004: US$188.9 million).

In 2005, the Group achieved an average daily charter rate from its fleet of owned and chartered handysize vessels of approximately US$17,100, compared with approximately US$17,900 in 2004.

The average number of owned and finance leased vessels increased to 32 in 2005 from 22 in 2004. The average number of long term chartered-in vessels in 2005 was nine as compared to six in 2004.

FINANCIAL REVIEW

Direct Costs

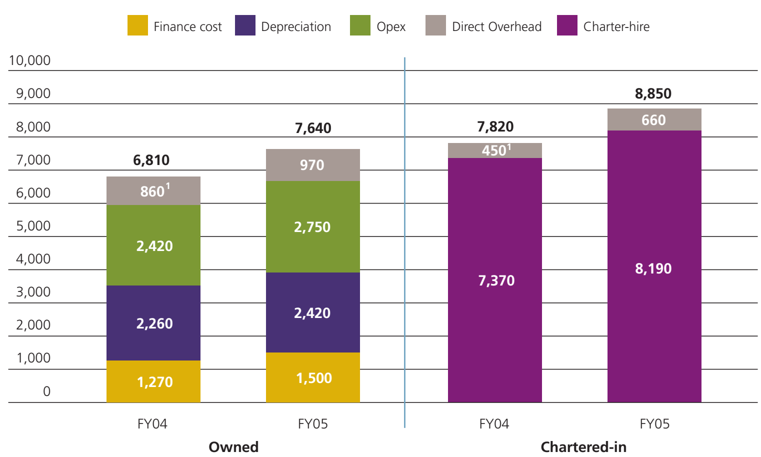
Direct costs in 2005 were US$114.8 million (2004: US$69.0 million). Direct costs include charter hire expenses of vessels held under operating leases, vessel operating costs for owned and finance leased vessels, cost of marine products sold, cost of marine services, and an overhead allocation of US$20.7 million (2004: US$11.0 million) representing shore-based costs of staff, offices and related expenses directly attributable to both the employment and operation of the owned and chartered fleet and the generation of marine service businesses.

Vessel charter-hire expenses increased to US$29.5 million in 2005 from US$18.7 million in 2004. This increase was a result of the increase in the average number of vessels chartered-in under operating leases in 2005.

Depreciation expenses increased to US$28.7 million in 2005 from US$18.3 million in 2004 primarily from the increase in the average number of vessels in the Group's owned fleet between 2004 and 2005. As a result of the adoption of HKAS 16 "Property, Plant & Equipment" which became effective 1 January 2005, the Group has changed the accounting policy in relation to drydocking costs. Drydocking costs were previously charged to the profit and loss account when incurred but are now treated as component costs of vessels and are depreciated over their estimated useful lives. This policy applies to previous accounting periods and led to an increase in depreciation expenses in 2005 and 2004 of US$5.1 million and US$2.8 million respectively.

The effect of the increase in the average number of vessels in the Group's owned (including finance leased) fleet, between 2004 and 2005, is also reflected in the increase in vessel operating costs, including crew expenses, insurance, repairs and maintenance and other miscellaneous running costs to US$31.9 million in 2005 from US$19.3 million in 2004.

Vessel costs can be expressed on a daily basis as follows:



Vessel days	**8,070**	**11,720**	**2,210**	**2,760**

[1] *Adjusted for the Company's reorganisation in 2004.*

FINANCIAL REVIEW

General and Administrative Expenses

General and administrative expenses were US$11.8 million in 2005 as compared with US$8.5 million in 2004. The increase was largely due to the Group's reorganisation effective 31 March 2004 which resulted in the acquisition of the management companies and which gave rise in 2005 to a full year costs (2004: nine months), coupled with managing an expanded fleet and a larger international presence. These expenses include Directors, senior management, key staff and administrative staff costs of US$8.0 million (2004: US$5.2 million) and other administrative and office expenses of US$3.8 million (2004: US$2.0 million). With the adoption of HKFRS 3 "Business Combinations" which became effective 1 January 2005, there was no amortisation of goodwill in 2005 (2004: US$1.3 million).

Finance Costs

Finance costs of US$17.9 million consist of interest payments and other finance charges of US$18.9 million, offset by unrealised gains on interest rate swaps of US$1.0 million, the recognition of which is in accordance with the new HKFRS and detailed in Note 2.2 to the audited consolidated accounts in this Annual Report. Interest payments of US$15.7 million consist of interest payments on bank borrowings used to finance the Group's vessels of US$11.5 million (2004: US$8.7 million) and finance lease charges of US$4.2 million (2004: US$Nil). The increase in interest payments on bank borrowings in 2005 was in part attributable to the higher average bank borrowings outstanding which increased to US$266.1 million in 2005 from US$229.3 million in 2004, although bank borrowings had been reduced to nil by the year end. Average interest rates on bank borrowings were approximately 4.3% in 2005 as compared to approximately 3.7% in 2004.

Finance lease charges in 2005 were US$4.2 million as compared to nil in 2004. During 2005, the Group sold and bareboat leased back 17 of its vessels for periods of 10 to 12 years. Proceeds from the sales of US$318.0 million were used to repay bank borrowings on those vessels and to prepay

FINANCIAL REVIEW

other bank debts. Following the prepayments, the Group had no outstanding bank borrowings on all its remaining owned vessels at 31 December 2005. In accordance with HKAS 17 "Leases", finance lease accounting has been adopted for these transactions, which means that the balance sheet continues to show the net carrying value of these vessels, and the current and long term liabilities in aggregate include finance lease obligations of US$318.0 million. There is no recognition of any gain or loss on the disposal of the 17 vessels. The charter hire payments, made every quarter, arising under the bareboat charterparties will be accounted for as a combination of repayments of finance lease obligations in the balance sheet and finance lease charges in the profit and loss account. Finance lease charges can be expressed as interest rates, fixed for the period of the leases. Average interest rates on finance leases were approximately 6.7% in 2005.

Gains on Disposal of Fixed Assets

Gains on disposal of fixed assets of US$23.5 million were recognised in 2005 (2004: US$Nil). The Group sold and leased back seven of its vessels. Proceeds from these sales of US$139.5 million were used to repay bank borrowings on those vessels and to prepay other bank debts. In accordance with HKAS 17 "Leases", operating lease accounting has been adopted for these transactions with the vessels being treated as sold, the gain or loss on disposal being recognised immediately and subsequent charter hire receipts being recognised as revenue. In addition, the Group long term leased out one of its owned vessels. In accordance with HKAS 17 "Leases", finance lease accounting has been adopted for this transaction, which means that the vessel was treated as sold with a gain on disposal recognised in the profit and loss account. The finance lease receivables of US$15.1 million are included in current and non-current trade and other receivables in the balance sheet. The charter hire payments, receivable every quarter, under the long term lease charterparty will be accounted for as a combination of settlement of finance lease receivables in the balance sheet and finance lease interest income in the profit and loss account.

Cash Flow

Net cash generated from operating activities in 2005 amounted to US$173.3 million (2004: US$130.2 million).

Net cash generated from investing activities was US$24.7 million in 2005, primarily as a result of the proceeds from the sale of vessels of US$139.5 million, offset by payments for vessels of US$121.2 million. Net cash used in investing activities was US$273.2 million in 2004, primarily as a result of purchases of vessels of US$274.4 million.

Net cash used in financing activities was US$157.5 million in 2005, primarily as a result of the repayment and voluntary prepayment of bank borrowings of US$420.0 million, the payment of dividends of US$88.5 million, partially offset by the sale proceeds under finance leases of US$318.0 million and draw down of additional bank borrowings for the acquisition of vessels of US$48.2 million. In 2004, net cash generated from financing activities was US$178.9 million, primarily as a result of net additional bank borrowings for the acquisition of vessels of US$188.4 million, partly

FINANCIAL REVIEW

offset by the payment of dividends by companies now comprising the Group to the then shareholders prior to the Group's reorganisation in March 2004.

At 31 December 2005, the Group had net working capital of US$71.9 million excluding long term lease liabilities repayable within one year of US$14.9 million. The primary sources of liquidity comprised bank balances and cash of US$83.7 million and unutilised committed and secured bank borrowing facilities of US$111.7 million. The Group's primary liquidity needs are to fund general working capital requirements (including lease commitments), fleet expansion and other capital expenditure.

Indebtedness

The indebtedness of the Group solely comprises lease liabilities of US$316.9 million, US$14.9 million of which represents the current portion that is repayable within one year from the balance sheet date. Bank borrowings decreased from US$370.1 million at 31 December 2004 to nil at 31 December 2005. The decrease is because the Group both repaid and prepaid bank borrowings following the sale and charter back of vessels during the year. At 31 December 2005, all outstanding lease liabilities will expire between 2015 and 2017.

At 31 December 2005, the Group had unutilised committed bank borrowing facilities of US$111.7 million. These facilities are available to finance the Group's newbuilding commitments and other vessel acquisitions to which the Group may be committed in the future.

At 31 December 2005, the Group's gearing ratio expressed as borrowings and lease liabilities, net of cash, as a percentage of fixed assets (based on net book values) and vessel finance lease receivables was 46.2% (2004: 59.3%).

Hedging

In 2005, the Group hedged its exposure to interest rate fluctuations by way of interest rate swaps and cap arrangements with banks which are detailed in Note 11 to the audited consolidated accounts in this Annual Report. In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", the aforesaid arrangements did not qualify for hedge accounting and as a result, gains or losses arising from a change in the fair value are recognised in the profit and loss account.

At 31 December 2005, the Group had bunker swap and forward contracts to buy approximately 82,900 metric tonnes of bunkers at fixed prices. These contracts will expire through December 2008. These commitments were made to hedge the Group's exposure to fluctuations in bunker prices in connection with the Group's long term cargo contract commitments. In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", the aforesaid contracts did not qualify for hedge accounting and as a result, gains or losses arising from a change in the fair value are recognised in the profit and loss account.

FINANCIAL REVIEW

At 31 December 2005, the Group had outstanding forward foreign exchange contracts with a bank to buy approximately Yen2.5 billion and simultaneously to sell US$24.8 million for the acquisition of a vessel denominated in Japanese Yen. In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", the aforesaid contract is part of a hedging relationship and as a result, a change in the fair value is recognised directly in reserves.

Lease Commitments

The Group's charter in commitments under operating leases as at 31 December 2005 stood at US$223.1 million as compared with US$34.3 million at 31 December 2004. The increase was mainly due to the sale and charter back of seven vessels during the year treated as operating leases.

Capital Expenditure

In 2005, capital expenditure, mainly comprising vessel acquisitions and instalments on newbuildings, was US$121.2 million.

At 31 December 2005, the Group had non-cancellable commitments for the construction of six new handysize vessels and one second hand handysize vessel for delivery to the Group between July 2006 and January 2009, with an aggregate unpaid cost of approximately US$158.9 million. Unpaid costs are net of progress payments and prepayments. Finance for such vessel commitments will come from cash generated from the Group's operations, existing unutilised bank facilities and additional long term borrowings to be arranged, 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 bank facilities, the Group has sufficient working capital to satisfy its present requirements.

FINANCIAL REVIEW

Staff

As at 31 December 2005, the Group employed a total of 219 full time shore-based staff in offices in Hong Kong, Shanghai, Singapore, London, Dalian, Seoul, Tokyo, Beijing, Melbourne, Vancouver, Mumbai, Bad Essen and Karachi.

The Group incurred total staff costs of approximately US$23.4 million for the year ended 31 December 2005, representing 5.4% of the Group's turnover for the year.

Remuneration of the Group's employees includes basic salaries, bonuses and long term incentives. Employees are remunerated on a fixed salary basis and are eligible for a discretionary bonus (based on both the Group's and individual's performance for the year) and performance-related bonuses if certain financial and other targets, which are set annually by the Board, are achieved.

The Group's principal retirement benefit scheme is the Mandatory Provident Fund Scheme (the "MPF Scheme") provided 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 which 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.

Following the approval of shareholders at a special general meeting convened on 8 June 2005, the Company's share option scheme (now called the "Long Term Incentive Scheme") was amended to allow the Company to award restricted shares and restricted units as an alternative, or in addition, to granting share options.

Details of share options and restricted share awards granted under the Long Term Incentive Scheme are set out in the Report of the Directors of this Annual Report.

CORPORATE GOVERNANCE

The Group is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and all of its stakeholders. The Code on Corporate Governance Practices (the "Code") as promulgated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") came into effect for the reporting year commencing on 1 January 2005 (save for the provisions on internal controls which came into effect for accounting periods commencing from 1 July 2005 onwards). The Group has considered the code provisions of the Code and has put in place corporate governance practices to meet all the code provisions and recommended best practices that are considered to be relevant to the Group.

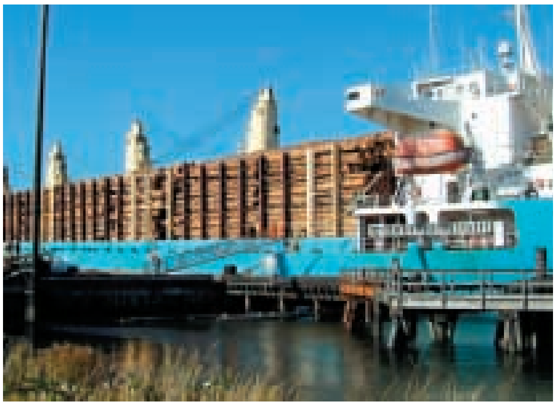
Throughout the year the Company has complied with all code provisions of the Code as contained in Appendix 14 of the Listing Rules.

The Board of Directors

The Board's primary responsibilities are to formulate 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 and is responsible for preparing the accounts.

The Board is also required to approve (i) the acquisition or disposal of vessel tonnage that requires shareholder notification or approval under the Listing Rules of the Stock Exchange, (ii) developments in the strategic direction of the Group, and (iii) matters involving a conflict of interest for a substantial shareholder or Director.

The Board comprises nine Directors, whose biographical details are set out in the ''Directors, Senior Management and Key Staff" section on pages 24 to 29 of this Annual Report. Four of the Directors are executive, two are non-executive and three are independent non-executive. The five non-executive Directors bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contributes to the effective strategic management of the Group. The executive Directors are not permitted to 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 all of their active business time to the business and affairs of the Group.



In accordance with the Company's 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 not less than one-third) shall retire from office by rotation.

CORPORATE GOVERNANCE

Please refer to the Report of Directors on page 61 for the composition of the Board and Board Committees and the terms of appointment of each Director.

The posts of Chairman and Group Chief Executive are held separately by Mr. Christopher R. Buttery and Mr. Mark M. Harris respectively and their roles and responsibilities are separate and are set out in writing.

The Chairman is responsible for formulating and setting Group strategies and policies in conjunction with the Board. The Chairman's responsibilities under the Code are executed by Mr. Richard M. Hext, the Executive Deputy Chairman, who is charged with the running of the Group and is responsible for ensuring that appropriate information is circulated regularly so that Board members can actively contribute to the Group's development.

The Group Chief Executive is responsible for managing Group strategic initiatives, investor relations, corporate and investor communications, mergers/acquisitions and fleet refinancing.

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

The Board met on six occasions during 2005. The attendance of individual Directors at the Board meetings and two other Board Committees (the Audit Committee and the Remuneration Committee) is set out in the table below. No meetings of the Nomination Committee were held.

	Meetings Attended/Held		
	Board	**Audit Committee**	**Remuneration Committee**
Executive Directors			
Christopher R. Buttery	4/6		
Richard M. Hext (appointed on 5 April 2005)	5/6		
Mark M. Harris	6/6		
Paul C. Over	2/6		
Non-executive Directors			
Lee Kwok Yin, Simon	4/6		3/3
Brian P. Friedman	4/6		3/3
James J. Dowling (resigned on 5 April 2005)	1/6		
Independent non-executive Directors			
Robert C. Nicholson	6/6	6/6	3/3
Patrick B. Paul	5/6	6/6	3/3
The Earl of Cromer	5/6	5/6	3/3

CORPORATE GOVERNANCE

The Board confines itself to making broad policy decisions, such as the Group's overall strategies and policies, annual budgets and business plans, while delegating responsibility for more detailed consideration to the various Board Committees and management. Management is responsible for overseeing the Group's business operations, implementing the strategies laid down by the Board and making day-to-day operating decisions.

The Board has established Audit, Remuneration and Nomination Committees in accordance with the Code and all or a majority of the members of the Committees are independent non-executive Directors. In July 2005, the Company also established an Executive Committee, comprising three executive Directors, which has the authority to commit to and execute contracts that fall within the parameters set by the Board in order to streamline the decision making process in circumstances where announcements to the Stock Exchange are not required. Decisions made by both the Board and the Executive Committee are based on detailed analysis prepared by management. The terms of reference of these Board Committees are posted on the Company's website at www.pacbasin.com.

The Audit Committee

The Audit Committee consists of the three independent non-executive Directors: Mr. Patrick B. Paul (Committee Chairman), Mr. Robert C. Nicholson and The Earl of Cromer. The main responsibilities of the Audit Committee are to review the financial accounts and the auditors' reports and monitor integrity of the financial statements. Other responsibilities include the appointment of auditors, approval of the auditors' remuneration, discussion of audit procedures and any other matters arising from the above. The Audit Committee is also charged with overseeing the financial reporting system and internal controls procedures and their effectiveness.

The Audit Committee held six meetings during the year. The work of the Audit Committee in 2005 included the following matters:

- review of 2004 annual results, review and discussion of the audit committee report with the auditors and review of the draft annual results announcement;
- review of the approach to internal controls and risk assessment;
- adoption of the revised terms of reference following introduction of the Code;
- confirmation of eligibility of audit committee members;
- review and consideration of various accounting issues and new standards and their financial impact;
- consideration of the audit fee for the year 2005;
- review of 2005 interim results, review and discussion of the audit committee report with the auditors, review of the draft management discussion and analysis section of the interim report;
- review of the 2005 audit strategy memorandum;

CORPORATE GOVERNANCE

- review and consideration of the auditors' letter to the management on internal controls for the year 2004;

- review of connected party transactions completed for the six months ended 30 June 2005; and

- review and approval of the accounting treatment for the sale and charter back transaction of five vessels.

During the reporting year, the Audit Committee has met with the external auditors with no executive Directors present.

The Remuneration Committee

The Remuneration Committee consists of two non-executive Directors (Mr. Lee Kwok Yin, Simon and Mr. Brian P. Friedman) and three independent non-executive Directors (Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul and The Earl of Cromer).

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, as well as the time commitment and responsibilities of the executive Directors and senior management. It makes recommendations to the Board for the remuneration of non-executive Directors. It also reviews and approves performance-based remuneration and administers and oversees the Group's Long Term Incentive Scheme. The Remuneration Committee ensures that no Director is involved in deciding his own remuneration.

The Remuneration Committee held three meetings during the year. The work of the Remuneration Committee included the following matters:

- approval of 2004 bonuses and 2005 salary increases for executive Directors and senior management;

- adoption of the revised terms of reference reflecting changes after introduction of the Code;

- approval of the proposal to incorporate the restricted share plan into the share option scheme and its renaming to the Long Term Incentive Scheme for subsequent approval and adoption by the shareholders at the special general meeting of the Company on 8 June 2005;

- award of a total of 4,799,999 restricted shares to the Deputy Chairman and six key staff and employees subject to adoption of the Long Term Incentive Scheme in June 2005 by way of written consents by all members of the Remuneration Committee;

- approval and ratification of the terms of termination of one senior manager and terms of employment of one key staff;

- review of the definition of "senior management" within the Group; and

- approval of employment agreement of a senior manager and an award of a total of 1,075,000 restricted shares to one senior manager and two key staff.

CORPORATE GOVERNANCE

The Nomination Committee

The Nomination Committee consists of two non-executive Directors (Mr. Lee Kwok Yin, Simon and Mr. Brian P. Friedman) and three independent non-executive Directors (Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul and The Earl of Cromer).

The Nomination Committee meets as and when required to oversee the nomination of Directors to the Board ensuring that all such nominations are fair and transparent and that the Board benefits from the right balance of skills, experience and knowledge to govern effectively. The Nomination Committee also reviews the structure, size and composition of the Board, paying regard to the Stock Exchange board composition rules.

During the year, no meeting of the Nomination Committee was held. The proposal to the Board for re-nomination of the two non-executive Directors for a further 12 months until 5 June 2006 was agreed by the Nomination Committee by way of written resolution of all members of the Nomination Committee except the two non-executive Directors whose re-nominations were being considered.

The Executive Committee

Although not required by the Code, the Executive Committee established in July 2005 consists of three executive Directors: the Chairman, the Deputy Chairman, and the Group Chief Executive of the Company.

The main responsibilities of the Executive Committee are (i) to identify and execute transactions for vessel purchases and sales that do not require shareholder notification or approval under the Listing Rules of the Stock Exchange, (ii) to identify and execute the sale and charter back of vessels, (iii) to identify and execute transactions for long term charters (inward), and (iv) set cargo cover levels which are within the normal course of the business of the Group. In addition, it has the authority to (v) make decisions over commencement or cessation of employment and ongoing remuneration for "key staff" as listed in the biography section of this Annual Report and (vi) exercise the Company's general mandate to repurchase shares in accordance with the parameters set by the Board and the limits set by the shareholders.

Risk Management and Internal Controls

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Group's system of internal controls is designed for the identification and management of risks that are significant to the fulfillment of its business objectives. The Group has established a Risk Management Committee which comprises Deputy Chairman, Group Chief Executive, Chief Financial Officer, Group Financial Controller and an Operations Manager and is chaired by the Deputy Chairman. The aim of the Risk Management Committee is to strengthen the risk management culture throughout the Group. It has developed and will continue to review the existing internal control system to allow the Board to monitor and ensure that all key risks are properly managed and controlled. In addition to relevant provisions in the Code, the management have referred to the "Guide on Internal Control and Risk Management" published by the Hong Kong Institute of Certified Public Accountants in developing its approach to risk management.

CORPORATE GOVERNANCE

All departments within the Group have documented their key tasks and the risks associated with those tasks. The risks have been reviewed, graded and tabulated in a risk register by the Risk Management Committee, which has been guided and advised by the Audit Committee. Risks have been graded according to their likelihood, financial consequence and reputational impact on the Group. Special attention has been paid to the most significant risks identified in the process. The process has been supported by the development of operational manuals for all departments and consultations with external bodies which are recognised as experts in the field of internal control and auditing. The most significant risks for the Group are:

- Exposure to market fluctuations causing unstable or inadequate revenue streams and diminution of asset values;

- Software or system failures or breakdowns preventing use of critical software for prolonged periods;

- Violation and/or non-compliance with the Group's or statutory regulations by seastaff or shorebased personnel related to ship operations; and

- Oil pollution or cargo environmental incident which exceeds the maximum insurable amount provided by P&I Club.

Activities, procedures and controls now in place and new controls to be implemented have been identified and documented in the risk register. Specific details on the control process including (but not limited to) levels of authority granted to individuals, responsibility and documentary audit trails, are also contained in this list.

Management, on behalf of the Board, will undertake the annual internal control review process in the second quarter of 2006. This will cover all material controls, including financial, operational and compliance controls and risk management functions. All significant risks will be tested in 2006 and at least once every 12 months thereafter. Other risks will be tested at intervals appropriate to their risk rating. The criteria for assessing the effectiveness of internal controls are based on an assessment of whether the documented control processes have operated throughout the period being reviewed. Internal and/or external audit support will be utilised as considered necessary by the Risk Management Committee. Based on the results of those tests, risk owners within the Group will be able to confirm to senior management that their risks controls are working as intended or that revised controls have been implemented in any areas where improvement is necessary. Revised controls will be re-tested to assess their effectiveness.

The Risk Management Committee will report the results of the testing and details of the revised controls required (if any) to the Board through the Audit Committee and any significant areas of concern will be highlighted in future annual reports. The Code provisions in relation to internal controls came into effect for accounting period commencing from 1 July 2005 onwards. In accordance with the Stock Exchange's transitional arrangement, the Board will complete a review of the Group's internal controls during 2006 and shall comment on such review in the next corporate governance report.

CORPORATE GOVERNANCE

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

- the Group is aware of its obligations under the Listing Rules;
- the Group conducts its affairs with close regard to the "Guide on Disclosure of Price-Sensitive Information" issued by the Stock Exchange in January 2002;
- through channels such as financial reporting, public announcements and websites, the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusionary distribution of information to the public;
- the Group has included in its code of conduct a strict prohibition on the unauthorised use of confidential or insider information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Group Chief Executive and investor relations team are authorised to communicate with parties outside the Group.

Directors' Securities Transactions

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

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 (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

Details of the remuneration and share ownership of the Directors and senior management are contained in the Remuneration Report and Report of the Directors on pages 47 and 56 respectively of this Annual Report.

CORPORATE GOVERNANCE

Auditors' Remuneration

Remuneration payable to Messrs. PricewaterhouseCoopers for services provided for the year ended 31 December 2005 is as follows:

	US$'000
Audit	660
Non-audit related	293
Total	953

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, Central, 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.

Investor Relations

The Group'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, Central, Hong Kong, or by email to ir@pacbasin.com.

CORPORATE GOVERNANCE

Shareholders Meetings

Two general meetings of the Company were held during the reporting period.

At the first annual general meeting held on 29 April 2005, resolutions were passed to approve (i) the audited accounts and the Reports of the Directors and Auditors for the year ended 31 December 2004; (ii) the declaration of 16 HK cents per share as a final dividend for the year ended 31 December 2004; (iii) re-election of Directors; (iv) the fixing of the remuneration of the Directors by the Board; (v) the re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2005 and to authorise the Board to fix their remuneration; (vi) the general mandate to repurchase shares; (vii) the general mandate to issue shares; and (viii) the amendments to the Company's Bye-laws.

At the special general meeting held on 8 June 2005, an ordinary resolution was passed to approve the amendments to the Company's Share Option Scheme (now known as the Long Term Incentive Scheme) to include the grant of restricted share and restricted unit awards and for Directors to exercise the power of the Company to allot, issue and deal with up to 88,690,742 new shares of US$0.10 each of the Company to satisfy options and share awards granted and to be granted under the Long Term Incentive Scheme.

All resolutions tabled at the two general meetings were voted on by poll.

CORPORATE GOVERNANCE

Shareholders

As at 31 December 2005, the Company had 1,282,740,609 ordinary shares in issue, each with a par value of US$0.10. As at that date, the Company had 154 registered shareholders (of whom 146 or 94.8%) holding in aggregate 1,279,817,050 ordinary shares, have their registered addresses in Hong Kong) which include nominees, investments funds and the Central Clearing and Settlement System of Hong Kong.

Public Float

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, at least 88.2% of the Company's total issued share capital is held by the public.

Reporting via Internet

The Company website provides shareholders, financial professionals and the general public with the following information through the internet at www.pacbasin.com:

- Biographical data on Directors, Senior Management and Key Staff;
- Terms of Reference of Board Committees;
- Financial Reports;
- Share Information; and
- Presentations, Announcements and News.

For those who want hard copies of the Company's website information listed above, please contact our Company Secretary and we shall provide you with such information free of charge.

Financial Calendar for the First Half of 2006

Announcement of 2005 annual results	6 March (Monday)
Last day of dealings in shares with entitlement to 2005 final dividend	30 March (Thursday)
Ex-dividend date	31 March (Friday)
Deadline for lodging transfers for entitlement to final dividend	3 April (Monday), 4 pm HK time
Book closure (both days inclusive) for final dividend payment	4 to 7 April (Tuesday to Friday)
Annual General Meeting	7 April (Friday)
Final dividend payment date	13 April (Thursday)
Announcement of first quarter trading update	27 April (Thursday)

REMUNERATION REPORT

This Remuneration Report sets out the Group's remuneration and remuneration policies for executive Directors, non-executive Directors and senior management.

Sections 2, 3, 4 and 6 below comprise the auditable part of the Remuneration Report and form an integral part of the Company's accounts.

1. Executive Directors and Senior Management – Components of Remuneration

The key components of remuneration for executive Directors and senior management comprise fixed and variable elements and include 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 and local market practice as well as the individual's role, duties, experience and responsibilities.

For the executive Directors and the three senior managers, the 2005 bonus comprised two parts:

(1) up to a third of base salary determined by reference to the Group achieving specific financial targets set by the Remuneration Committee;

(2) up to two thirds of base salary awarded by the Remuneration Committee on a discretionary basis. Awards were determined based on the overall performance of the individual and the Group as assessed by the Remuneration Committee.

All other key staff 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 achievement of his or her personal objectives.

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

REMUNERATION REPORT

2. Executive Directors – Remuneration in 2005

The remuneration payable to the executive Directors or charged in the accounts in 2005 is shown below:

	Salaries US$'000	Bonus US$'000	Employer's contribution to pension scheme US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged in the accounts US$'000
2005						
Christopher R. Buttery	**398**	**222**	**2**	**622**	**235**	**857**
Richard M. Hext [(a)]	**981**	**165**	**–**	**1,146**	**747**	**1,893**
Mark M. Harris	**573**	**319**	**2**	**894**	**235**	**1,129**
Paul C. Over	**430**	**241**	**2**	**673**	**235**	**908**
Total	**2,382**	**947**	**6**	**3,335**	**1,452**	**4,787**
2004						
Christopher R. Buttery	299	300	1	600	144	744
Mark M. Harris	415	413	1	829	144	973
Paul C. Over	294	295	1	590	144	734
Total	1,008	1,008	3	2,019	432	2,451

(a) Richard M. Hext was appointed on 5 April 2005. Included in his salary was a one-off payment of US$0.6 million made upon completion of the first 30 days of his employment with the Company. Mr Hext is also entitled to a fixed bonus for the first two years of his employment with the Company.

REMUNERATION REPORT

3. Non-executive Directors – Remuneration in 2005

The Company paid the following annual fees, with pro-rata adjustment for service less than one year.

	2005 US$'000	2004 US$'000
Non-executive Directors		
Lee Kwok Yin, Simon	37	17
Brian P. Friedman	37	17
James J. Dowling [(a)]	7	15
	81	49
Independent non-executive Directors		
Robert C. Nicholson	57	26
Patrick B. Paul	52	26
The Earl of Cromer	45	23
	154	75
Total	235	124

(a) James J. Dowling resigned on 5 April 2005.

4. Total Directors' Remuneration in 2005

The total remuneration payable to all executive and non-executive Directors or charged in the accounts for the year ended 31 December 2005 is shown below:

	2005 US$'000	2004 US$'000
Directors' fees	235	124
Salaries	2,382	1,008
Bonus	947	1,008
Retirement benefit costs	6	3
Total payable	3,570	2,143
Share-based compensation	1,452	432
Total payable and charged in the accounts	5,022	2,575

REMUNERATION REPORT

5. Senior Management Remuneration in 2005

The total remuneration payable to senior management (as listed from page 27 to 29) or charged in the accounts for the year ended 31 December 2005 is shown below:

	2005 US$'000	2004 US$'000
Salaries	926	604
Bonus	512	606
Retirement benefit costs	5	3
Total payable	1,443	1,213
Share-based compensation	638	321
Total payable and charged in the accounts	2,081	1,534

Included in the 2005 salary figure is a termination benefits payment of US$0.2 million in relation to a senior manager who resigned in October 2005.

6. Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year include the four (2004: three) Directors whose emoluments are reflected in section 2 of this Remuneration Report. The emoluments payable to the remaining highest paid individual (2004: two) for the year ended 31 December 2005 are shown below:

	2005 US$'000	2004 US$'000
Salaries	254	429
Bonus	127	431
Retirement benefit costs	1	2
Termination benefits	154	–
Total payable	536	862
Share-based compensation	286	216
Total payable and charged in the accounts	822	1,078

REMUNERATION REPORT

The emoluments of the remaining highest paid individual (2004: two) fell within the following bands:

	Number of individuals	
		(restated)
	2005	2004
Emolument bands		
US$512,821 – US$576,923 (HK$4,000,001 – HK$4,500,000)	**–**	2
US$769,231 – US$833,333 (HK$6,000,001 – HK$6,500,000)	**1**	–
	1	2

CORPORATE SOCIAL RESPONSIBILITY

Pacific Basin understands its social, safety, and environmental responsibilities. Pacific Basin is committed to fostering long term relationships with its shareholders, employees, customers, business partners and other stakeholders. Pacific Basin takes pride in applying high standards of management, customer service and corporate governance. Through these, Pacific Basin strives to deliver the best possible service to its customers and to enhance shareholder value.

Standards

Pacific Basin recognises that it owes its success to its employees and it strives to provide them with a safe, healthy and fulfilling work environment. Pacific Basin looks to improve continuously the skills of its personnel ashore and at sea.

Pacific Basin is committed to providing service of the highest standards for its customers and business partners worldwide.

Pacific Basin prides itself on providing high quality vessels, manned with highly competent crew.

CORPORATE SOCIAL RESPONSIBILITY

Pacific Basin is committed to applying sound and internationally accepted business ethics in its business. Pacific Basin endeavours to conduct its business in the most responsible manner to ensure customer satisfaction while complying with all statutory and regulatory requirements. Pacific Basin adheres to all applicable maritime laws and treaties, including the codes, guidelines and standards recommended by the International Maritime Organisation, relevant Flag State administrations, classification societies and other recognised maritime industry organisations.

The Community

Pacific Basin acknowledges its position as a responsible member of the community both in Hong Kong and in the cities and ports to which Pacific Basin trades worldwide.

Pacific Basin is a prominent member of the shipping community and has affiliations with maritime organisations including the Baltic Exchange, BIMCO and the Hong Kong Shipowners Association.

As one of the largest foreign employers of Chinese crew, Pacific Basin continues to be a major supporter of the Chinese seafaring community and the training of Chinese seafarers. Pacific Basin's growing body of Chinese management executives and seagoing personnel testifies to its commitment to the employment of Chinese graduates and seafarers.

Pacific Basin makes contributions to charity and community programmes. In 2005, Pacific Basin supported a number of charities including The Missions to Seamen, The Community Chest of Hong Kong, Oxfam Trail Walker and The World Wide Fund for Nature (Hong Kong). Pacific Basin recognises the importance of social responsibility and remains open to further opportunities which benefit society.

CORPORATE SOCIAL RESPONSIBILITY

Safety and Environmental Responsibility

Operational safety is of the utmost importance to Pacific Basin.

Pacific Basin is committed to the safe and environmentally conscious operation of ships through a proactive management system, both ashore and at sea. Pacific Basin conforms to both the mandatory International Safety Management (ISM) Code and the voluntary ISO standards.

Pacific Basin has developed and implemented the Pacific Basin Management System (PBMS) which aims to ensure:

- safety at sea and prevention of human injury or loss of life;
- avoidance of damage to the environment, in particular to the marine environment and to property; and
- customer satisfaction through determining and meeting customer requirements.

Pacific Basin manages the environmental impact of all of its operations and projects in a responsible manner. Objectives are established, where possible, to reduce identified environmental impacts on the atmosphere and on the marine environment.

Pacific Basin recognises the importance of incorporating environmental issues into everyday business decisions and activities, and monitoring appropriate technology and management practices which enhance its environmental performance.

CORPORATE SOCIAL RESPONSIBILITY

Pacific Basin has implemented the voluntary ISO 9001:2000, 14001 Environmental Management system and OHSAS 18001 Occupational Health and Safety Management system, demonstrating its commitment to quality, safety and environmental protection. Pacific Basin's technical operation has also been certified by Lloyd's Register Quality Assurance (LRQA) to the ISO 9001:2000 standard and achieved ISO 14001 and OHSAS 18001 standards.

REPORT OF THE DIRECTORS

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 2005.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of the Company's subsidiaries (set out in Note 32 to the accounts) are primarily ship owning and ship chartering. An analysis of the Group's performance for the year by business segment is set out in Note 5 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 69.

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

Consistent with 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 35 HK cents per share for the year ended 31 December 2005. When this proposed final dividend is aggregated with the interim dividend of 30 HK cents per share declared on 5 September 2005, the total payout of 65 HK cents per share represents 73% of the Group's profits for the year ended 31 December 2005. The proposed final dividend for 2005 of 35 HK cents per share is to be considered at the 2006 Annual General Meeting scheduled for 7 April 2006.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Note 19 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to US$99,000.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in Note 6 to the accounts.

Share Capital

Details of the movements in share capital of the Company are set out in Note 18 to the accounts.

Distributable Reserves

Distributable reserves of the Company at 31 December 2005, calculated according to the Companies Act 1981 of Bermuda, amounted to US$104.3 million.

Pre-emptive Rights

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

REPORT OF THE DIRECTORS

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 128.

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.

Long Term Incentive Scheme

Share options and share awards are granted to executive Directors, senior management and other employees under a share option scheme amended and approved by shareholders on 8 June 2005 (the "Long Term Incentive Scheme" or "LTIS").

(a) *Purpose and eligible participants of the LTIS*

The LTIS enables the Company to grant share options and share awards to eligible participants (and their related trusts and companies), being principally directors, 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 which may be issued by the Company or transferred to (i) the trustee of the LTIS in satisfaction of share awards and (ii) in respect of options that have been granted or to be granted, under the LTIS or any other schemes must not, in aggregate, exceed 126,701,060 shares, representing 9.87% of the shares in issue as at the date of this Annual Report. As at the date of this Annual Report, 60,500,000 options and 4,799,999 restricted shares were granted under the LTIS which represents 5.09% 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 or vesting of share awards granted in any 12 month period to an eligible participant (including both exercised and outstanding options and vesting of outstanding share awards) shall not exceed 1% of the shares in issue as at the date of grant.

(d) *Basis of determining the exercise price of options*

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

All notices to exercise 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.

REPORT OF THE DIRECTORS

(e) *Procedure of granting restricted share awards*

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

(f) *Remaining life of the scheme*

The LTIS will remain in force unless terminated by resolutions in general meeting or the Board at any time. Upon termination, no further share options or share awards shall be offered under the LTIS.

(g) *Awards granted*

Details of the grant of long term incentives and a summary of the movements of the outstanding incentives during the year ended 31 December 2005 under the LTIS are as follows:

(i) Share options

	Number of share options					
	Held at 1 January 2005	**Granted during the year**	**Exercised during the year**	**Held at 31 December 2005**	**Exercise price**	**Weighted average closing price[3]**
					HK$	*HK$*
Executive Directors						
Christopher R. Buttery	4,800,000[1]	–	1,600,000	3,200,000	2.50	**3.98**
Richard M. Hext	–	5,000,000[2]	–	5,000,000	3.875	**NA**
Mark M. Harris	4,800,000[1]	–	1,600,000	3,200,000	2.50	**4.00**
Paul C. Over	4,800,000[1]	–	1,600,000	3,200,000	2.50	**3.98**
	14,400,000	5,000,000	4,800,000	14,600,000		
Senior Management	10,800,000[1]	–	4,700,000	6,100,000	2.50	**3.87**
Key Staff	8,400,000[1]	–	1,480,000	6,920,000	2.50	**3.74**
Other Employees	21,900,000[1]	–	4,750,000	17,150,000	2.50	**3.85**
	55,500,000	5,000,000	15,730,000	44,770,000		

REPORT OF THE DIRECTORS

Notes:

(1) Granted on 14 July 2004, the date of listing of the Company, and vesting over a three year period and will expire on 14 July 2014 unless otherwise stated. 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 with the exception of one senior manager whose unvested share options became fully vested upon termination of his employment contract and are exercisable for a period of 12 months from that date.

(2) Granted on 5 April 2005 and vesting over a five year period. 1,000,000 share options are exercisable in each of the following periods: (i) from 5 April 2006 to 4 April 2015, (ii) from 5 April 2007 to 4 April 2015, (iii) from 5 April 2008 to 4 April 2015, (iv) from 5 April 2009 to 4 April 2015, and (v) from 5 April 2010 to 4 April 2015. The closing price of the shares of the Company immediately before the 5,000,000 options were granted on 5 April 2005 was HK$3.85.

(3) This represents the weighted average closing price of the shares immediately before the dates on which the options were exercised.

No share options lapsed or were cancelled under the LTIS during the year under review.

(ii) Restricted share awards

	Number of restricted share awards			
	Held at 1 January 2005	**Granted during the year**	**Vested during the year**	**Held at 31 December 2005**
Executive Directors				
Richard M . Hext	–	3,333,333[1]	–	3,333,333
Key Staff	–	866,666[2]	288,890	577,776
Other Employees	–	600,000[2]	200,001	399,999
	–	4,799,999	488,891	4,311,108

Notes:

(1) Granted on 8 June 2005 and vesting in equal amounts on 5 April 2006, 2007, 2008, 2009 and 2010.

(2) Granted on 8 June 2005 and vesting in equal amounts on 30 November 2005, 2006 and 2007.

The closing price of the shares of the Company immediately before the 4,799,999 restricted share awards were granted on 8 June 2005 was HK$3.60.

REPORT OF THE DIRECTORS

(h) *Valuation of the Share Options*

Based on reports prepared by Watson Wyatt Hong Kong Limited, the fair market values of the share options granted on 14 July 2004 and on 5 April 2005 under the LTIS based on the binomial option pricing model are as follows:

Tranche	**Exercise period**	**Fair value per share option**	**Number of share options as at date of grant**
		HK$	
Share options granted on 14 July 2004:			
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
Share options granted on 5 April 2005:			
1	5 April 2006 to 4 April 2015	1.306	1,000,000
2	5 April 2007 to 4 April 2015	1.307	1,000,000
3	5 April 2008 to 4 April 2015	1.287	1,000,000
4	5 April 2009 to 4 April 2015	1.251	1,000,000
5	5 April 2010 to 4 April 2015	1.203	1,000,000
			5,000,000

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

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

REPORT OF THE DIRECTORS

Directors

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

	Date of appointment					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Terms of appointment
Executive Directors						
Christopher R. Buttery *(Chairman)*	15 March 04	–	–	–	27 July 05	3 years from 1 April 2004
Richard M. Hext [2] *(Deputy Chairman)*	5 April 05	–	–	–	27 July 05	3 years from 5 April 2005
Mark M. Harris [3] *(Group Chief Executive)*	15 March 04	–	–	–	27 July 05	3 years from 1 April 2004
Paul C. Over	15 March 04	–	–	–	–	3 years from 1 April 2004
Non-executive Directors						
Lee Kwok Yin, Simon [4]	15 March 04	–	15 September 04	1 March 05	–	until 5 June 2006
Brian P. Friedman [4]	15 March 04	–	15 September 04	1 March 05	–	until 5 June 2006
James J. Dowling	15 March 04	–	–	–	–	resigned on 5 April 2005
Independent non-executive Directors						
Patrick B. Paul *– Chairman of Audit Committee*	25 March 04	18 May 04	10 June 04	30 November 04	–	3 years from 28 May 2004
Robert C. Nicholson *– Chairman of Remuneration Committee & Chairman of Nomination Committee*	25 March 04	18 May 04	10 June 04	30 November 04	–	3 years from 28 May 2004
The Earl of Cromer	25 March 04	18 May 04	10 June 04	30 November 04	–	3 years from 28 May 2004

Notes:

(1) Pursuant to Bye-law 87(1), one-third of the Directors shall retire from office by rotation at each annual general meeting and retiring Directors shall be eligible for re-election at the annual general meeting.

(2) Mr. Richard M. Hext will assume the position of Chief Executive Officer from the conclusion of the forthcoming 2006 Annual General Meeting and at the same time resign as Deputy Chairman. The position of Deputy Chairman will be assumed by Mr. Daniel R. Bradshaw who will be appointed as a non-executive Director from the conclusion of the forthcoming 2006 Annual General Meeting.

(3) Mr. Mark M. Harris will resign as executive Director and Group Chief Executive from the conclusion of the forthcoming 2006 Annual General Meeting.

(4) Messrs. Lee Kwok Yin, Simon and Brian P. Friedman were re-nominated as non-executive Directors in June 2005 for a further 12 months until 5 June 2006.

Pursuant to Bye-laws 87(1) & (2) of the Company, Christopher R. Buttery, Paul C. Over (both having been longest in office) and The Earl of Cromer will retire at the forthcoming 2006 Annual General Meeting and, being eligible, will offer themselves for re-election.

REPORT OF THE DIRECTORS

In accordance with Bye-law 86(2) of the Company, Lee Kwok Yin, Simon and Brian P. Friedman (the two non-executive Directors) had their terms of appointment extended for a further 12 months by the Board, and, being eligible, will offer themselves for re-election at the forthcoming 2006 Annual General Meeting.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming 2006 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 pages 24 to 29.

Directors' and Chief Executive's Interests and Short Positions in the Shares, Underlying Shares and Debentures of the Company or Any Associated Corporation

At 31 December 2005, the discloseable interests and short positions of each Director and the Chief Executive in shares, underlying shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, 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	Corporate interests	Personal interests	Trust & similar interests	Share options	Total share interests	Approximate percentage of issued share capital of the Company
Christopher R. Buttery	–	5,626,612	18,386,905 [2]	3,200,000 [1]	27,213,517	2.12%
Richard M. Hext	–	3,333,333 [1]	–	5,000,000 [1]	8,333,333	0.65%
Mark M. Harris	6,282,261 [5]	12,121,001	–	3,200,000 [1]	21,603,262	1.68%
Paul C. Over	–	–	23,535,041 [3]	3,200,000 [1]	26,735,041	2.08%
Lee Kwok Yin, Simon	–	–	60,807,220 [4]	–	60,807,220	4.74%

Notes:

(1) Share options and restricted share awards were granted to certain Directors under the LTIS and have been disclosed from page 57 to page 59 under Long Term Incentive Scheme of this Report of the Directors.

(2) 18,386,905 shares are owned by Turnwell Limited. 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.

REPORT OF THE DIRECTORS

(3) 23,535,041 shares are owned by Ansleigh Limited. 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.

(4) 19,935,122 shares, 1,059,725 shares, 22,335,373 shares, 7,377,000 shares and 10,100,000 shares are beneficially owned by Asia Distribution Limited, Firelight Investments Limited, Eagle Pacific International Limited, Wellex Investment Limited and Fortress Eagle Investment Limited, respectively. These companies are controlled by discretionary trusts established by Mr Lee, the discretionary objects of which include his family members.

(5) Dragon Island Shipping Limited, which is controlled by Mr Harris, owns 6,282,261 shares in the Company.

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2005.

Save as disclosed above, at no time during the year was the Company, its subsidiaries, or its associates a party to any arrangement to enable the Directors and Chief Executive 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 Secion 336 of the SFO shows that as at 31 December 2005, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name	Capacity/Nature of interest		Number of shares	Approximate percentage of issued share capital of the Company
JP Morgan Chase & Co.[1]	Investment manager and approved lending agent	Long Positions	110,200,000	8.59%
		Short Positions	–	
Pembroke Shipping Limited	Beneficial owner	Long Positions	87,055,253	6.79%
		Short Positions	–	

Note:

(1) The shares held by JP Morgan Chase & Co. are held in the capacities of investment manager (relating to 43,098,000 shares) and custodian corporation/approved lending agent (relating to 67,102,000 shares).

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.

REPORT OF THE DIRECTORS

Connected Transactions

During the year ended 31 December 2005, the Group had the following connected transaction that was subject to the Listing Rules' reporting requirements for disclosure in this Annual Report:

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, Lee Kwok Yin, Simon, one of the Directors of the Company.

For the year ended 31 December 2005, premiums payable to Sun Hing amounted to US$0.2 million which is within the approved cap of US$0.7 million as disclosed in the Company's prospectus dated 30 June 2004.

Pursuant to the waiver letter issued by the Stock Exchange in respect of the above transaction, this connected transaction could be exempted if certain conditions are fulfilled based on the confirmation from independent non-executive Directors that this transaction satisfies the following conditions:

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

(b) the continuing connected transaction has 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 transaction has 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 satisfied in 2005.

REPORT OF THE DIRECTORS

Based on the work performed, the auditors of the Company have reported that the aforesaid continuing connected transaction (a) has been approved by the Board of the Company; (b) has been entered into in accordance with the terms of the relevant agreement governing the transaction, based on the sample selected; and (c) has not exceeded the caps allowed by the Stock Exchange in the previous waiver.

Compliance with the Code on Corporate Governance Practices

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

Audit and Remuneration Committees

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

Auditors

The 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 and within the knowledge of the Directors as at the date of this Annual 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, 6 March 2006

AUDITORS' REPORT

To the Shareholders of Pacific Basin Shipping Limited
(Incorporated in Bermuda with limited liability)

We have audited the accounts on pages 67 to 127, which have been prepared in accordance with the accounting principles generally accepted in Hong Kong. We have also audited the disclosures contained in sections 2, 3, 4 and 6 of the Remuneration Report ("the auditable part") on pages 47 to 51, which are referred to in note 23 to the accounts.

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 Hong Kong Standards on Auditing 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, together with those parts of the Remuneration Report referred to in note 23 to the accounts, give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2005 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 6 March 2006

CONSOLIDATED BALANCE SHEET

As at 31 December 2005

	Note	2005 US$'000	(restated) 2004 US$'000
Non-current assets			
Fixed assets	6	**504,309**	544,128
Goodwill	7	**25,256**	25,256
Interests in jointly controlled entities	9	**8,138**	8,838
Investment securities	10	**–**	200
Derivative assets	11	**3,382**	–
Trade and other receivables	12	**13,333**	–
Restricted bank deposits	14	**1,200**	4,150
		555,618	582,572
Current assets			
Available-for-sale financial assets	10	**200**	–
Inventories	13	**9,138**	6,564
Derivative assets	11	**1,607**	–
Trade and other receivables	12	**25,043**	20,108
Bank balances and cash			
– pledged/restricted	14	**430**	1,910
– unpledged	15	**82,081**	41,651
		118,499	70,233
Current liabilities			
Derivative liabilities	11	**180**	–
Trade and other payables	16	**44,567**	35,315
Current portion of long term borrowings	17	**14,912**	36,021
Dividend payable		**–**	12,995
Taxation payable		**1,851**	1,801
		61,510	86,132
Net current assets/(liabilities)		**56,989**	(15,899)
Total assets less current liabilities		**612,607**	566,673
Non-current liabilities			
Derivative liabilities	11	**1,360**	–
Long term borrowings	17	**301,973**	334,103
		303,333	334,103
Net assets		**309,274**	232,570
Equity			
Share capital	18	**128,184**	126,701
Retained profits	19	**126,308**	54,967
Other reserves	19	**54,782**	50,902
Total equity		**309,274**	232,570

Approved by the Board of Directors on 6 March 2006

Director
Richard M. Hext

Director
Mark M. Harris

BALANCE SHEET OF THE COMPANY

As at 31 December 2005

	Note	2005 US$'000	(restated) 2004 US$'000
Non-current assets			
Investments in subsidiaries	8	**223,931**	232,019
Current assets			
Prepayments		**61**	89
Amounts due from subsidiaries	8	**121,280**	39,750
Bank balances and cash	15	**93**	106
		121,434	39,945
Current liabilities			
Accruals and other payables		**111**	96
Dividend payable		**–**	12,995
		111	13,091
Net current assets		**121,323**	26,854
Total assets less current liabilities		**345,254**	258,873
Equity			
Share capital	18	**128,184**	126,701
Retained profits	19	**104,320**	24,718
Other reserves	19	**112,750**	107,454
Total equity		**345,254**	258,873

Approved by the Board of Directors on 6 March 2006

Director
Richard M. Hext

Director
Mark M. Harris

CONSOLIDATED PROFIT AND LOSS ACCOUNT

For the year ended 31 December 2005

	Note	2005 US$'000	(restated) 2004 US$'000
Turnover	5	**433,704**	302,244
Bunkers, port disbursements and amounts payable to other pool members	5	**(169,021)**	(113,361)
Time charter equivalent earnings	5	**264,683**	188,883
Other income	20	**735**	431
Direct costs	21	**(114,752)**	(69,012)
General and administrative expenses		**(11,811)**	(8,541)
Gain on disposal of fixed assets		**23,516**	–
Operating profit	22	**162,371**	111,761
Finance costs	24	**(17,940)**	(10,215)
Share of profits less losses of jointly controlled entities		**3,491**	2,494
Profit before taxation		**147,922**	104,040
Taxation	25	**(779)**	(485)
Profit attributable to shareholders	26	**147,143**	103,555
Dividends	27	**107,430**	88,797
Basic earnings per share	28(a)	**US 11.58 cents**	US 9.59 cents
Diluted earnings per share	28(b)	**US 11.46 cents**	US 9.55 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2005

	Note	US$'000
Total equity at 1 January 2004, as previously reported		38,884
Prior year adjustment for the adoption of HKAS 16 for vessel component costs	2.2(vi)	(1,769)
As restated		37,115
Issue of shares for acquisition of subsidiaries	18,19	81,313
Issue of shares upon initial public offering, net of issuing expenses	18,19	71,680
Exchange differences arising on translation of the accounts of foreign subsidiaries	19	54
Profit attributable to shareholders, as restated	19	103,555
Share-based compensation	19	1,660
Dividends paid	19	(62,807)
Total equity at 31 December 2004, as restated		232,570
Total equity at 1 January 2005, as previously reported		**232,636**
Prior year adjustment for the adoption of HKAS 16 for vessel component costs	2.2(vi)	**(66)**
Opening balance adjustment arising from the initial adoption of HKAS 39	2.2(vi)	**(330)**
As restated		**232,240**
Purchase of shares by trustee of the LTIS	18	**(2,252)**
Issue of shares under the LTIS	18,19	**5,041**
Exchange differences arising on translation of the accounts of foreign subsidiaries	19	**(56)**
Fair value losses of cash flow hedges	19	**(1,360)**
Profit attributable to shareholders	19	**147,143**
Share-based compensation	19	**3,990**
Dividends paid	19	**(75,472)**
Total equity at 31 December 2005		**309,274**

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2005

	Note	2005 US$'000	(restated) 2004 US$'000
Operating activities			
Cash generated from operations	29(a)	**174,020**	130,952
Hong Kong profits tax paid		**(611)**	(688)
Overseas taxation paid		**(118)**	(91)
Net cash from operating activities		**173,291**	130,173
Investing activities			
Purchase of fixed assets		**(121,241)**	(274,447)
Sale of fixed assets		**139,516**	84
Interest received		**735**	78
Purchase of subsidiaries, net of cash acquired		**–**	1,042
Purchase of jointly controlled entities		**(161)**	(2,202)
Increase in loans to a jointly controlled entity		**(500)**	–
Dividends received from jointly controlled entities		**1,550**	1,831
Dividend received from investment securities		**–**	227
Decrease in restricted and pledged bank deposits		**4,430**	179
Receipt of finance lease receivables – capital element		**354**	–
Net cash from/(used in) investing activities		**24,683**	(273,208)
Financing activities			
Proceeds from initial public offering, net of share issuing expenses		**–**	71,680
Payment for purchase of shares under the LTIS		**(2,252)**	–
Proceeds from issue of shares under the LTIS		**5,041**	–
Repayment of bank loans		**(419,969)**	(228,038)
Drawdown of bank loans		**48,188**	416,469
Repayment of loans from the then shareholders		**–**	(24,231)
Interest and other finance charges paid		**(16,970)**	(7,126)
Dividends paid		**(88,467)**	(49,812)
Proceeds from finance lease payables		**318,000**	–
Repayment of finance lease payables – capital element		**(1,115)**	–
Net cash (used in)/from financing activities		**(157,544)**	178,942
Increase in cash and cash equivalents		**40,430**	35,907
Cash and cash equivalents at 1 January		**41,651**	5,744
Cash and cash equivalents at 31 December	29(b)	**82,081**	41,651

NOTES TO THE ACCOUNTS

1. GENERAL INFORMATION

Pacific Basin Shipping Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in the provision of dry bulk shipping services, which are carried out internationally, through the operation of a fleet of vessels.

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

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

These consolidated accounts have been approved for issue by the Board of Directors on 6 March 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies applied in the preparation of these consolidated accounts are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

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

The preparation of accounts in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity or areas where assumptions and estimates are significant to these consolidated accounts are disclosed in Note 4.

Certain new standards, amendments and interpretations to existing standards (collectively "New Standards") have been published by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006 or later periods. The Group was not required to adopt these New Standards in the accounts for the year ended 31 December 2005. The Group has already commenced an assessment of the impact of these New Standards but is not yet in a position to state whether these New Standards would have a significant impact on its results of operations and financial position.

2.2 Adoption of new/revised HKFRS

With effect from 1 January 2005, the Group has adopted the new/revised standards and interpretation of HKFRS below, which are relevant to its operations. The 2004 comparatives have been restated as required.

(i) ***Fixed assets***

(a) *Vessel component costs*

Drydocking costs were previously charged to the profit and loss account when incurred. Under HKAS 16 "Property, Plant and Equipment", when a vessel is delivered, major components which are usually replaced or renewed in connection with a drydocking are depreciated over the estimated period to the first drydocking. The Group subsequently capitalises drydocking costs as they are incurred and depreciates these costs over their estimated useful lives. This change is applied to previous accounting periods.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new/revised HKFRS (continued)

(i) ***Fixed assets (continued)***

(b) *Residual values*

Previously, the residual value of a fixed asset was estimated at the date of acquisition and was not subsequently amended for changes in the estimated residual value. Under HKAS 16, the residual value and the useful life of an asset are reviewed at least at each year end and, if expectations differ from previous estimates, the changes are accounted for as a change in an accounting estimate.

(ii) ***Financial assets***

The adoption of HKAS 32 "Financial Instruments: Disclosure and Presentation" and HKAS 39 "Financial Instruments: Recognition and Measurement" has resulted in changes in the accounting policies relating to recognition and classification of (a) financial assets and liabilities at fair value through profit and loss, (b) available-for-sale financial assets and (c) loans and receivables. HKAS 32 is applied to previous accounting periods, whereas HKAS 39 is not. The effects of adopting HKAS 32 and HKAS 39 are set out below:

From 1 January 2004 to 31 December 2004, the Group classified its investments in securities, other than subsidiaries and jointly controlled entities, as investment securities, which were stated at cost less any provision for impairment losses. In addition, the Group's borrowings were stated at cost.

From 1 January 2005 onwards, the Group classifies its financial assets in the following three categories: (a) financial assets at fair value through profit or loss, (b) available-for-sale financial assets and (c) loans and receivables. The classification depends on the purpose of these financial assets. Management determines their classification at the time of initial recognition and re-evaluates their classification at every reporting date.

(iii) ***Share-based compensation***

In previous years, the provision of share options to employees did not result in an expense in the profit and loss account. Effective on 1 January 2005, the Group adopted HKFRS 2 "Share-based Payment" whereby the fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the profit and loss account in the current period with an adjustment to the previous accounting period.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that are expected to become vested. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new/revised HKFRS (continued)

(iii) ***Share-based compensation (continued)***

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

(iv) ***Goodwill***

The adoption of HKFRS 3 "Business Combinations" and HKAS 36 "Impairment of Assets" has resulted in a change in the accounting policy for goodwill. Until 31 December 2004, goodwill on acquisitions was:

– Amortised on a straight-line basis over 15 years; and
– Assessed for indication of impairment at each balance sheet date.

In accordance with the provisions of HKFRS 3 and HKAS 36:

– The Group ceased amortisation of goodwill from 1 January 2005;
– Accumulated amortisation as at 31 December 2004 has been eliminated with a corresponding decrease in the cost of goodwill; and
– From the year ended 31 December 2005 onwards, goodwill is tested annually for impairment, as well as when there is an indication of impairment.

(v) ***Consolidation of special purpose entities***

A special purpose entity ("SPE") is an entity whose activities are being conducted on behalf of the Company and the Company has the decision making powers over the activities of the entity. Following the adoption of HKAS-Int 12 "Consolidation-Special Purpose Entities", the Group consolidates an entity when the substance of the relationship between the Company and that entity falls under the definition of a SPE.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new/revised HKFRS (continued)

(vi) ***Summary of effect on adopting new/revised HKFRS***

The following table sets out the increase/(decrease) in the consolidated profit and loss and the increase/(decrease) in the consolidated balance sheet items that have been made in these accounts following the adoption of new/revised HKFRS.

	Effect of adopting						
	HKFRS 2	HKFRS 3	HKAS 16		HKAS 39		
	Share-based compensation#	Goodwill amortisation^	Vessel component costs#	Residual values^	Financial instruments^	HKAS-Int 12 SPE#	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
(a) Consolidated Profit and Loss Account							
Increase/(decrease) in profit attributable to shareholders							
For the year ended 31 December 2005:							
Turnover	–	–	–	–	–	56,048	56,048
Bunkers, port disbursements and amounts payable to other pool members	–	–	–	–	–	(56,048)	(56,048)
Depreciation of vessels	–	–	(5,121)	1,992	–	–	(3,129)
Drydocking costs	–	–	5,042	–	–	–	5,042
Share-based compensation	(3,990)	–	–	–	–	–	(3,990)
Fair value gains on financial instruments	–	–	–	–	4,617	–	4,617
Goodwill amortisation	–	1,772	–	–	–	–	1,772
Profit attributable to shareholders	(3,990)	1,772	(79)	1,992	4,617	–	4,312
Effect on earnings per share							
– basic (US cents)	(0.31)	0.14	(0.01)	0.16	0.36	–	0.34
– diluted (US cents)	(0.31)	0.14	(0.01)	0.16	0.36	–	0.34
For the year ended 31 December 2004:							
Turnover	–	–	–	–	–	67,978	67,978
Bunkers, port disbursements and amounts payable to other pool members	–	–	–	–	–	(67,978)	(67,978)
Depreciation of vessels	–	–	(2,802)	–	–	–	(2,802)
Drydocking costs	–	–	4,505	–	–	–	4,505
Share-based compensation	(1,660)	–	–	–	–	–	(1,660)
Profit attributable to shareholders	(1,660)	–	1,703	–	–	–	43
Effect on earnings per share							
– basic (US cents)	(0.15)	–	0.16	–	–	–	0.01
– diluted (US cents)	(0.15)	–	0.16	–	–	–	0.01

adjustments which take effect retrospectively

^ adjustments which take effect prospectively from 1 January 2005

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.2 Adoption of new/revised HKFRS (continued)

(vi) ***Summary of effect on adopting new/revised HKFRS (continued)***

	Effect of adopting					
	HKFRS 2	HKFRS 3	HKAS 16		HKAS 39	
	Share-based compensation#	Goodwill amortisation^	Vessel component costs#	Residual values^	Financial instruments^	Total
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
(b) Consolidated Balance Sheet						
Increase/(decrease) in						
As at 31 December 2005:						
Fixed assets	–	–	(145)	1,992	–	1,847
Derivative assets/liabilities	–	–	–	–	3,449	3,449
Trade and other payables	–	–	–	–	(522)	(522)
Goodwill	–	1,772	–	–	–	1,772
Net assets	–	1,772	(145)	1,992	2,927	6,546
Reserves						
Share premium	1,691	–	–	–	–	1,691
Staff benefits reserve	3,959	–	–	–	–	3,959
Hedging reserve	–	–	–	–	(1,360)	(1,360)
Retained profits	(5,650)	1,772	(145)	1,992	4,287	2,256
Equity	–	1,772	(145)	1,992	2,927	6,546
As at 1 January 2005:						
Fixed assets	–	–	(66)	–	–	(66)
Derivative assets/liabilities	–	–	–	–	(330)	(330)
Net assets	–	–	(66)	–	(330)	(396)
Reserves						
Staff benefits reserve	1,660	–	–	–	–	1,660
Retained profits	(1,660)	–	(66)	–	(330)	(2,056)
Equity	–	–	(66)	–	(330)	(396)
As at 1 January 2004:						
Net assets – Fixed assets	–	–	(1,769)	–	–	(1,769)
Equity – Retained profits	–	–	(1,769)	–	–	(1,769)

\# adjustments which take effect retrospectively
^ adjustments which take effect prospectively from 1 January 2005

The adoption of HKFRS 2 resulted in a decrease in the Company's profit attributable to shareholders and a corresponding increase in the staff benefits reserve amounting to US$3,990,000 (2004: US$1,660,000).

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.3 Group accounting

(i) ***Consolidation***

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

Subsidiaries are those entities (including special purpose entities and unincorporated 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; has the power to appoint or remove a majority of the members of the board of directors; or has the right 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.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the profit and loss account.

All significant intercompany transactions, balances and unrealised gains or losses within the Group are eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

(ii) ***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 Group's interests in jointly controlled entities are accounted for by the equity method. 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 on acquisition.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Fixed assets

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

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

(ii) ***Vessels and vessel component costs***

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

Subsequent costs are included in the vessel's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the profit and loss account during the financial period in which they are incurred.

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

Vessel component costs include the cost of major components which are usually replaced or renewed in connection with a drydocking when a vessel is delivered. The assets are stated at cost less accumulated depreciation and accumulated impairment losses. The vessel component costs are depreciated over the estimated period to the first drydocking. The Group subsequently capitalises drydocking costs as they are incurred and depreciates these costs over their estimated useful lives.

(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:

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

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

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.4 Fixed assets (continued)

(iv) ***Residual values and useful lives***

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

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

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

2.5 Goodwill

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

Goodwill is tested for impairment annually or if events or changes in circumstances indicating that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill cannot be reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

2.6 Impairment of assets

Assets that have an indefinite useful life are not subject to amortisation, but are tested for impairment, at least annually and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units).

2.7 Leases

(i) ***Operating leases***

(a) *Where the Group is the lessor*

When the Group leases out assets under operating leases, the assets are included in the balance sheet and, where applicable, are depreciated in accordance with the Group's depreciation policies as set out in Note 2.4 above. Revenue arising from assets leased out under operating leases is recognised on a straight-line basis over the lease periods.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leases (continued)

(i) ***Operating leases (continued)***

(b) *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.

(ii) ***Finance leases***

(a) *Where the Group is the lessor*

When vessels are leased out under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance lease interest income.

(b) *Where the Group is the lessee*

Leases of assets where the Group has substantially all the risks and rewards of ownership are accounted for as finance leases. Finance leases are capitalised at the lease's inception at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is split between a repayment of the liability on the balance sheet and a finance charge. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The finance charge element of the rental obligations is expensed in the profit and loss account over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods. However, where there is a reasonable probability that the Group will continue to enjoy the economic benefits of those assets over their estimated useful lives, they are depreciated over this longer period.

(iii) ***Sale and leaseback transactions – where the Group is the lessee***

A sale and leaseback transaction involves the sale of an asset by the vendor and the leasing of the same asset back to the vendor. The lease payments and the sale price are usually interdependent as they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved and the economic and commercial substance of the whole arrangement.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.7 Leases (continued)

(iii) ***Sale and leaseback transactions – where the Group is the lessee (continued)***

(a) *Finance leases*

Sale and leaseback arrangements that result in the Group retaining the majority of the risks and rewards of ownership of assets are accounted for as finance leases. Any excess of sales proceeds over the carrying amount shall be deferred and amortised over the lease term. Each lease payment is allocated between the repayment of finance lease liabilities and finance charges so as to achieve a constant periodic rate of interest on the finance lease liability outstanding.

(b) *Operating leases*

Sale and leaseback arrangements that result in substantially all of the risks and rewards of ownership of assets being transferred to the lessor 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.

2.8 Financial assets

From 1 January 2004 to 31 December 2004:

The Group classified its investments in securities, other than subsidiaries and jointly controlled entities, as investment securities. These were stated at cost less any provision for impairment losses.

The carrying amounts of individual financial assets are reviewed at each balance sheet date to assess whether the fair values have declined below the carrying amounts. When a decline other than a temporary decline has occurred, the carrying amount of such securities is 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 the 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.

From 1 January 2005 onwards:

The Group classifies its financial assets in the following three categories:

(i) Financial assets at fair value through profit or loss;
(ii) Available-for-sale financial assets; and
(iii) Loans and receivables.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (continued)

The classification depends on the purpose of these financial assets. Management determines their classification at the time of initial recognition and re-evaluates their classification at every reporting date.

Purchases and sales of financial assets are recognised on the date of trade, when the Group commits to purchase or sell the assets. Financial assets are initially recognised at fair value plus transaction costs, and are excluded when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

(i) ***Financial assets at fair value through profit or loss***

This category includes derivative financial assets that are initially recognised at fair value at the date the contracts are entered into and are periodically restated at their fair values. Realised and unrealised gains and losses arising from changes in the fair values are included in the profit and loss account in the period in which they arise, except where the derivatives qualify for cashflow hedge accounting or hedge the net investment in a foreign operation, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

Assets in this category are classified as current assets if they are either held for trading or are expected to be realised within 12 months from the balance sheet date.

(ii) ***Available-for-sale financial assets***

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are stated at fair value and unrealised gains and losses arising from changes in the fair value are recognised in equity reserves in the balance sheet.

Assets in this category are included in non-current assets unless management intends to dispose them within 12 months from the balance sheet date.

(iii) ***Loans and receivables***

Loans and receivables are recognised initially at fair value, net of transaction costs incurred. Transaction costs are incremental costs that are directly attributable to the acquisition or repayment of a borrowing. Loans and receivables are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the loans and receivables using the effective interest method.

Loans and receivables are classified as current assets if they are either held for trading or are expected to be realised within 12 months of the balance sheet date.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.8 Financial assets (continued)

(iii) ***Loans and receivables (continued)***

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to a debtor with no intention of trading the receivables. They are included in current assets, except for maturities greater than 12 months after the balance sheet date. These are classified as non-current assets. Loans and receivables are included in trade and other receivables in the balance sheet.

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

2.9 Derivative financial instruments and hedging activities

From 1 January 2004 to 31 December 2004:

Derivative financial instruments are designated as "hedging" or "non-hedging" instruments. The transactions that, according to the Group's policy for risk management, are able to meet the conditions for hedge accounting are classified as "hedging" transactions; the others, although set up for the purpose of managing risk, have been designated as "trading" transactions. The Group records derivative financial instruments at cost. The gains and losses on maturity of derivative financial instruments are included in the profit and loss account to match the underlying hedged transactions where relevant.

For interest rate instruments designated as hedges, the interest rate differential is included in the profit and loss account, in financial income and expenses, offsetting the effects of the hedged transaction. Derivative financial instruments designated as trading instruments are valued at year end market value, and the difference between the nominal contract value and fair value is recorded in the profit and loss account under financial income and expenses. During 2004, the Group did not hold any derivative financial instruments designated as trading instruments.

From 1 January 2005 onwards:

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as either: (i) hedges of the fair value of recognised assets or liabilities or a firm commitment (fair value hedge); (ii) hedges of highly probable forecast transactions (cash flow hedges); or (iii) hedges of net investments in foreign operations.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.9 Derivative financial instruments and hedging activities (continued)

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

The fair values of various derivative instruments used for hedging purposes are disclosed in Note 11. Movements on the hedging reserve in shareholders' equity are shown in Note 19.

(a) ***Fair value hedge***

Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the profit and loss account, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

(b) ***Cash flow hedge***

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the profit and loss account.

Amounts accumulated in equity are transferred to the profit and loss account in the periods when the hedged item will be recorded in the profit and loss account (for instance when the forecast cash flows that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

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

(c) ***Derivatives that do not qualify for hedge accounting***

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instruments that do not qualify for hedge accounting are recognised immediately in the profit and loss account.

2.10 Inventories

Inventories mainly comprise bunkers on board 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.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.11 Trade and other receivables

Trade receivables represent freight and charter-hire receivables which are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect the amount due according to the original terms of that receivable. The amount of the provision is recognised in the profit and loss account.

2.12 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held with banks.

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

2.14 Employee benefits

(i) ***Bonuses***

The Group recognises a liability for bonuses when there is a contractual obligation and the amount can be estimated reliably.

(ii) ***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 vests immediately upon the completion of service in the relevant service period, while the remaining portion vests 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.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.14 Employee benefits (continued)

(ii) ***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 local 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 contributions fully vesting.

(iii) ***Share-based compensation***

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the profit and loss account.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the profit and loss account, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium accounts when the share options are exercised and when the restricted share awards are vested.

2.15 Share capital

Ordinary shares are classified as equity. Costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

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

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.16 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Transaction costs are costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability, including fees and commissions paid to agents, advisers, brokers and dealers, levies by regulatory agencies and securities exchanges, and transfer taxes and duties. Borrowings are subsequently stated at amortised costs; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the profit and loss account over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the balance sheet date.

2.17 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.

Contingent liabilities are not recognised but are disclosed in the notes to the accounts. When a change in the probability of an outflow occurs so that outflow is probable, it 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 future 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 an inflow is virtually certain, an asset is recognised.

2.18 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 which is regarded as a special purpose entity of the Group.

Revenues from the IHC Pool are derived from a combination of voyage charters, time charters and contracts of affreightment and are recognised on an accruals basis.

(ii) ***Ship management***

Ship management income is recognised when the services are rendered.

(iii) ***Others***

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

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.18 Revenue recognition (continued)

(iii) ***Others (continued)***

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

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

2.19 Translation of foreign currencies

(i) ***Functional and presentation currency***

Items included in the accounts of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated accounts are presented in United States Dollars, which is the Company's functional and presentation currency.

(ii) ***Transactions and balances***

Transactions in foreign currencies are translated into the functional currency using the exchange rates prevailing 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 profit and loss account, except when deferred in equity as qualifying cash flow hedges.

(iii) ***Group companies***

For all the Group's entities that have a functional currency different from the presentation currency, their balance sheets are translated at the rates of exchange ruling at the balance sheet date whilst their profit and loss accounts are translated at average rates. Exchange differences are dealt with as movements in reserves.

2.20 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.

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

2.21 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

NOTES TO THE ACCOUNTS

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

2.22 Dividends

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's accounts in the period in which the dividends are declared.

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

3. FINANCIAL RISK MANAGEMENT

3.1 Financial risk factors

The Group's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Under the Group's risk management programme, each department identifies and documents their key tasks and the risks associated with their tasks. The risks are summarised in a risk register where they are graded by likelihood and consequence and where the procedures and controls for managing the risks are recorded.

(a) ***Market risk***

(i) *Foreign exchange risk*

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars. Foreign exchange risk arises from future commercial transactions, assets and liabilities and net investments, denominated in foreign currencies. To mitigate risks arising from fluctuations in exchanges rates, forward foreign exchange contracts are used to hedge the currency exposure of the Group.

(ii) *Price risk*

The Group's result may be significantly affected by the fluctuation of bunker prices which are a significant cost to the Group. The bunker prices are determined by the market demand and supply. To mitigate risks arising from fluctuations in bunker prices, forward bunker contracts are used to hedge the exposure of the Group.

(b) ***Credit risk***

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are provided to customers with an appropriate credit history. No credit terms are normally given to customers. In relation to voyage-related trade receivables, the due date depends on the date of completion of the voyage and the finalisation of post disbursements and other voyage-related charges.

The Group manages its exposure to derivative counter-parties by taking into account their financial strength.

NOTES TO THE ACCOUNTS

3. FINANCIAL RISK MANAGEMENT (CONTINUED)

3.1 Financial risk factors (continued)

(c) ***Liquidity risk***

The Group manages its liquidity risk by ensuring it has sufficient liquid cash balances to meet its payment obligations as they fall due. The Group maintains good working relations with its ship finance banks and ensures compliance with the covenants as stipulated in the loans and finance lease agreements.

(d) ***Cash flow and fair value interest rate risk***

Long term borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using certain interest rate hedging instruments from time to time. Details of long term borrowings and interest rate swaps, are set out in Note 11.

3.2 Fair value estimation

Financial instruments held by the Group are mainly over-the-counter derivatives which are not traded in an active market. The fair value of forward foreign exchange contracts is determined using forward exchange market rates at the balance sheet date. The fair value of other financial instruments is based on the market price quoted by dealers as at the balance sheet date.

The fair value of financial assets and liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are:

(i) Goodwill impairment

Note 7 contains information about the assumptions and their risk factors relating to impairment of goodwill.

NOTES TO THE ACCOUNTS

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS (CONTINUED)

(ii) Residual values of fixed assets

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

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

(iii) Useful lives of vessels and vessel component costs

Useful lives of the Group's vessels and vessel component costs are defined as the period over which they are expected to be available for use by the Group. The estimation of the useful life is a matter of judgement based on the experience of the Group with similar vessels.

The Group estimates useful life of its vessels by reference to the average historical useful life of the same class of vessels, expected usage of the vessels, expected repair and maintenance programme, and technical or commercial obsolescence arising from changes or improvements in the vessel market.

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

(iv) Classification of leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership. The Group classifies its leases into either finance lease or operating lease taking account of the spirit, intention, and application of HKAS 17 "Leases".

Taking into account the market conditions at the inception of the lease, the period of the lease, the flexibility of exercising purchase options, if any, attached to the lease and on a balance of probability, management's assessment is that for those leases that they have ultimately treated as finance leases, the arrangements were such that they transfer ownership of the assets to the Group by the end of the term of the arrangements, or the purchase options, if any, attached to the arrangements, were sufficiently attractive as to make it reasonably certain that they would be exercised. On the contrary, for those leases that have been treated as operating leases, management's assessment is that the arrangements were such that the leases would not transfer ownership of the assets to the Group by the end of the term of the arrangements, or that it was not reasonably certain that the purchase options, if any, attached to the arrangements would be exercised.

NOTES TO THE ACCOUNTS

5. TURNOVER AND SEGMENT INFORMATION

The Group is principally engaged in the provision of dry bulk shipping services through the operation of a fleet of vessels. Turnover recognised during the year is as follows:

	2005 US$'000	(restated) 2004 US$'000
Turnover		
Freight and charter-hire	**422,638**	292,740
Ship management income	**11,066**	9,504
	433,704	302,244
Bunkers, port disbursements and other charges	**(131,492)**	(61,033)
Amounts payable to other pool members[1]	**(37,529)**	(52,328)
Time charter equivalent earnings	**264,683**	188,883

[1] This is net of bunkers, port disbursements and other charges of US$19.6 million (2004: US$15.7 million).

On 1 January 2005, the Group adopted HKAS-Int 12 "Consolidation-Special Purpose Entities" resulting in a change in the Group's accounting for the IHC Pool. Previously, revenues from the IHC Pool were based on the number of pool points attributable to the Group's owned and chartered-in vessels participating in the pool, whereas now the Group consolidates such activities in full. This change is applied to previous accounting periods but there is no change in the way time charter equivalent earnings are calculated.

In arriving at time charter equivalent earnings, the IHC Pool paid to other pool members freight and charter hire, net of bunkers, port disbursement and other charges which were calculated based on the number of pool points attributable to the vessels participating in the pool owned by the other pool members.

Primary reporting format – business segments

The Group previously presented two major segments: ship chartering and ship management. However, for the year ended 31 December 2005, the Group no longer presents a ship management segment as the Group's business is dominated by the provision of dry bulk shipping services. Ship management no longer forms a significant part of the Group's business.

Secondary reporting format – geographical segments

The Directors consider that the nature of the provision of dry bulk shipping services, which are carried out internationally, and the way in which costs are allocated, preclude a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment information is not presented.

NOTES TO THE ACCOUNTS

6. FIXED ASSETS

	Group					
	Vessels and vessel component costs US$'000	Vessels under construction US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost:						
At 1 January 2004, as previously reported	218,013	3,075	–	–	–	221,088
Prior year adjustment for vessel component costs under HKAS 16	(121)	–	–	–	–	(121)
At 1 January 2004, as restated	217,892	3,075	–	–	–	220,967
Additions	245,633	28,145	22	577	70	274,447
Acquisition of subsidiaries	64,500	24,231	193	503	–	89,427
Write off of fixed assets	(2,750)	–	–	–	–	(2,750)
Disposals	–	–	–	(88)	(12)	(100)
Reclassification	35,700	(35,700)	–	–	–	–
At 31 December 2004, as restated	560,975	19,751	215	992	58	581,991
Accumulated depreciation:						
At 1 January 2004, as previously reported	20,311	–	–	–	–	20,311
Prior year adjustment for vessel component costs under HKAS 16	1,648	–	–	–	–	1,648
At 1 January 2004, as restated	21,959	–	–	–	–	21,959
Charge for the year	18,276	–	192	202	–	18,670
Write off of fixed assets	(2,750)	–	–	–	–	(2,750)
Disposals	–	–	–	(16)	–	(16)
At 31 December 2004, as restated	37,485	–	192	186	–	37,863
Net book value:						
At 31 December 2004, as restated	523,490	19,751	23	806	58	544,128
At 31 December 2003, as restated	195,933	3,075	–	–	–	199,008

NOTES TO THE ACCOUNTS

6. FIXED ASSETS (CONTINUED)

	Group					
	Vessels and vessel component costs US$'000	Vessels under construction US$'000	Leasehold improvements US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost:						
At 1 January 2005, as previously reported	559,341	19,751	215	992	58	580,357
Prior year adjustment for vessel component costs under HKAS 16	1,634	–	–	–	–	1,634
At 1 January 2005, as restated	560,975	19,751	215	992	58	581,991
Additions	67,390	51,436	1,764	651	–	121,241
Write off of fixed assets	(2,903)	–	(346)	(92)	–	(3,341)
Disposals	(142,104)	–	(12)	(157)	–	(142,273)
Reclassification	67,304	(67,304)	–	–	–	–
At 31 December 2005	550,662	3,883	1,621	1,394	58	557,618
Accumulated depreciation:						
At 1 January 2005, as previously reported	35,785	–	192	186	–	36,163
Prior year adjustment for vessel component costs under HKAS 16	1,700	–	–	–	–	1,700
At 1 January 2005, as restated	37,485	–	192	186	–	37,863
Charge for the year	28,701	–	516	335	12	29,564
Write off of fixed assets	(2,903)	–	(346)	(92)	–	(3,341)
Disposals	(10,676)	–	(5)	(96)	–	(10,777)
At 31 December 2005	52,607	–	357	333	12	53,309
Net book value:						
At 31 December 2005	498,055	3,883	1,264	1,061	46	504,309
At 31 December 2004, as restated	523,490	19,751	23	806	58	544,128

As at 31 December 2005, the aggregate cost and accumulated depreciation of the vessel component costs amounted to US$10,730,000 (2004: US$9,134,000) and US$4,416,000 (2004: US$2,279,000) respectively and were included in the vessels and vessel component costs.

As at 31 December 2005, the aggregate cost and accumulated depreciation of the vessels and vessel component costs held by the Group under finance leases amounted to US$310,083,000 (2004: US$Nil) and US$26,291,000 (2004: US$Nil) respectively.

NOTES TO THE ACCOUNTS

7. GOODWILL

	2005 **US$'000**	2004 US$'000
Cost:		
At the beginning of the year	**26,585**	–
Elimination of accumulated amortisation under HKFRS 3	**(1,329)**	–
Acquisition of subsidiaries	**–**	26,585
At the end of the year	**25,256**	26,585
Accumulated amortisation:		
At the beginning of the year	**1,329**	–
Elimination of accumulated amortisation under HKFRS 3	**(1,329)**	
Amortisation *(Note 22)*	**–**	1,329
At the end of the year	**–**	1,329
Net book value:		
At the end of the year	**25,256**	25,256
At the beginning of the year	**25,256**	–

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.5. The Group's business is dominated by ship chartering. As a result, the carrying amount of goodwill acquired through acquisitions is solely allocated to this segment for impairment testing.

The recoverable amount of the ship chartering segment has been determined based on a value-in-use calculation which in turn is based on financial projections of the Group. The discounted rate applied to the cash flow projections is 7.7%.

Based on the impairment testing of goodwill, in the opinion of the Directors, no impairment provision is considered necessary for the balance of the Group's goodwill.

Key assumptions used in value-in-use calculations:

The following describes each key assumption on which management has based its cash flow projections to undertake impairment testing of goodwill:

(a) Budgeted turnover was projected with reference to i) the expected earnings from ship chartering, and ii) the expected number of revenue days of the Group's fleet.

(b) Budgeted operating expenses were projected with reference to i) the expected number of revenue days of the Group's fleet, and ii) the age of the Group's fleet.

(c) Budgeted finance costs were projected with reference to i) the expected future interest rates, ii) the expected size of the Group's fleet, and iii) the expected borrowings.

(d) For the business environment, there will be no material change in the existing political, legal, regulatory, fiscal or economic conditions, bases or rates of taxation or duties in Hong Kong, or any of the countries in which the Group operates or in which the Group companies are incorporated or registered.

NOTES TO THE ACCOUNTS

8. SUBSIDIARIES

	Company	
	2005	2004
	US$'000	US$'000
Non-current		
Unlisted investments, at cost	**223,931**	130,762
Loans advanced to subsidiaries *(Note a)*	**–**	101,257
	223,931	232,019
Current		
Amounts due from subsidiaries *(Note b)*	**121,280**	39,750
	345,211	271,769

(a) As at 31 December 2004, the loans advanced to subsidiaries were unsecured, interest free and were not repayable within one year.

(b) The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The carrying amounts approximate their fair values.

Details of principal subsidiaries of the Group as at 31 December 2005 are set out in Note 32.

9. INTERESTS IN JOINTLY CONTROLLED ENTITIES

	Group	
	2005	2004
	US$'000	US$'000
Share of net assets	**7,138**	8,338
Loan to a jointly controlled entity	**1,000**	500
	8,138	8,838

The carrying amount of the loan to a jointly controlled entity approximates its fair value. The loan is unsecured, non-interest bearing and not repayable within one year.

NOTES TO THE ACCOUNTS

9. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Details of the jointly controlled entities of the Group at 31 December 2005 are as follows:

Name	Place of Incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
Asia Logistics Group Limited (formerly Pacific Basin Logistics Limited)	The British Virgin Islands/Hong Kong	4 shares of US$1 each	50%/50%/50%	Vessel chartering
Pacific Basin Bulker (No. 103) Corporation	Republic of Liberia	200 class 'B' shares of US$21,917.8 each	63.5%/50%/63.5%	Investment holding
China Line Shipping Limited 中外船務有限公司	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
Star Pacific Bulk Shipping Limited	The British Virgin Islands	100 shares of US$1 each	50%/50%/50%	Investment holding
Star Pacific Bulk Chartering (HK) Limited	Hong Kong	1 share of HK$1	50%/50%/50%	Vessel chartering
Star Pacific Bulk Chartering (UK) Limited	England and Wales	1 share of GBP1	50%/50%/50%	Vessel chartering
Tai Hua Ship Management (Shanghai) Limited 太華船舶管理(上海)有限公司	PRC	US$200,000 (registered capital)	50%/50%/50%	Provision of ship management services

NOTES TO THE ACCOUNTS

9. INTERESTS IN JOINTLY CONTROLLED ENTITIES (CONTINUED)

Name	Place of Incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
Tai Hua Ship Management (HK) Limited 太華船舶管理(香港)有限公司	Hong Kong	2 shares of HK$1 each	50%/50%/50%	Provision of ship management services
Pacific Basin Projects Limited	The British Virgin Islands	100 shares of US$1 each	50%/50%/50%	Provision of material supply and marine transportation activities

All jointly controlled entities are held indirectly by the Company.

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

	2005 US$'000	2004 US$'000
Assets:		
Non-current assets	11,851	15,895
Current assets	5,734	2,763
	17,585	18,658
Liabilities:		
Long term liabilities	(5,867)	(9,871)
Current liabilities	(4,580)	(449)
	(10,447)	(10,320)
Net assets	7,138	8,338
Income	28,257	4,204
Expenses	(24,766)	(1,710)
Share of profits less losses	3,491	2,494

NOTES TO THE ACCOUNTS

10. AVAILABLE-FOR-SALE FINANCIAL ASSETS/INVESTMENT SECURITIES

	Group	
	2005	2004
	US$'000	US$'000
Non-current assets		
Unlisted equity securities	**–**	200
Current assets		
Unlisted equity securities	**200**	–

The carrying amount of available-for-sale financial assets approximates its fair value.

There were no additions, disposals or impairment provisions on available-for-sale financial assets in 2005.

The investment securities were reclassified as available-for-sale financial assets in accordance with HKAS 32 "Financial Instruments: Disclosure and Presentation".

11. DERIVATIVE ASSETS AND LIABILITIES

	Group 31 December 2005	
	Assets	**Liabilities**
	US$'000	**US$'000**
Derivatives that do not qualify for hedge accounting:		
Interest rate swaps *(Note a)*	**709**	**–**
Bunker swap and forward contracts *(Note b)*	**4,280**	**–**
Forward freight agreement *(Note c)*	**–**	**180**
Cash flow hedge:		
Forward foreign exchange contracts *(Note d)*	**–**	**1,360**
Total	**4,989**	**1,540**
Less: non-current portion of		
Bunker swap and forward contracts	**(3,382)**	**–**
Forward foreign exchange contracts	**–**	**(1,360)**
Current portion	**1,607**	**180**

(a) Interest rate swaps

At 31 December 2005, the Group had agreements with banks to hedge against three-month floating rate LIBOR payments in connection with the Group's long term bank facilities, detailed as follows:

(i) A notional amount of approximately US$110 million (2004: US$121 million) with the floating rate capped at approximately 4.9% per annum. These agreements expire in July 2007; and

NOTES TO THE ACCOUNTS

11. DERIVATIVE ASSETS AND LIABILITIES (CONTINUED)

(a) Interest rate swaps (continued)

(ii) A notional amount of approximately US$55 million (2004: US$61 million) 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.

At 1 January 2005, the total fair values of interest rate swaps were liabilities of US$306,000.

(b) Bunker swap and forward contracts

At 31 December 2005, the Group had outstanding bunker swap and forward contracts to buy approximately 82,900 (2004: 96,500) metric tonnes ("mt") of bunkers at prices which range from US$182 to US$322 per mt (2004: range from US$165 to US$223 per mt), and which expire through December 2008. The commitments were entered into to hedge for fluctuations in bunker prices in connection with the Group's long term cargo contract commitments.

At 1 January 2005, the total fair values of bunker swap and forward contracts were liabilities of US$24,000.

(c) Forward freight agreement

At 31 December 2005, the Group had an outstanding forward freight agreement to buy the 90 days Baltic Handymax Index at a price of approximately US$19,194 per day, and which expires on March 2006. The commitment was entered into to hedge for fluctuations in freight revenues in connection with the Group's expected cargo contract commitments.

(d) Forward foreign exchange contracts

At 31 December 2005, the Group had outstanding forward foreign exchange contracts with a bank to buy approximately Yen2.5 billion and simultaneously to sell US$24.8 million for an acquisition of a vessel denominated in Japanese Yen. These contracts expire through December 2007.

Gains and losses in equity on forward foreign exchange contracts as of 31 December 2005 will be released to the profit and loss account in two years from the balance sheet date.

NOTES TO THE ACCOUNTS

12. TRADE AND OTHER RECEIVABLES

	Group 2005 US$'000	2004 US$'000
Non-current receivables		
Finance lease receivables – gross	20,063	–
Less: unearned finance lease income	(6,730)	–
Finance lease receivables – net *(Note a)*	13,333	–
Current receivables		
Finance lease receivables – gross	3,444	–
Less: unearned finance lease income	(1,635)	–
Finance lease receivables – net *(Note a)*	1,809	–
Trade receivables – gross	10,531	7,850
Less: provision for impairment of trade receivables	(841)	(195)
Trade receivables – net *(Note b)*	9,690	7,655
Other receivables	5,028	6,434
Prepayments	4,909	4,081
Amount due from a related company *(Note c)*	–	118
Amounts due from jointly controlled entities *(Note c)*	3,607	1,820
	25,043	20,108

The carrying amounts of trade and other receivables approximate their fair values.

(a) At 31 December 2005, the Group leased out a vessel under finance lease. Under the terms of the lease, the charterer has the obligation to purchase the vessel at the end of the lease period.

The effective interest rate for the finance lease receivables was fixed for the lease period at approximately 11.3%.

The gross receivables, unearned finance income and the net receivables from finance lease as at 31 December 2005 are as follows:

	Group 2005 US$'000	2004 US$'000
Gross receivables from finance leases:		
Not later than one year	3,444	–
Later than one year but not later than five years	10,048	–
Later than five years	10,015	–
	23,507	–
Less: unearned future finance income on finance leases	(8,365)	–
	15,142	–

NOTES TO THE ACCOUNTS

12. TRADE AND OTHER RECEIVABLES (CONTINUED)

	Group 2005 US$'000	Group 2004 US$'000
Net receivables from finance leases:		
Not later than one year	1,809	–
Later than one year but not later than five years	5,101	–
Later than five years	8,232	–
	15,142	–

(b) At 31 December 2005, the ageing analysis of trade receivables is as follows:

	Group 2005 US$'000	Group 2004 US$'000
Less than 30 days	7,636	4,717
31 – 60 days	603	1,978
61 – 90 days	593	347
Over 90 days	858	613
	9,690	7,655

No credit terms are normally given to customers. In relation to voyage-related trade receivables, the due date depends on the date of completion of the voyage and the finalisation of port disbursements and other voyage-related charges.

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

(c) The amounts due from a related company and jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

NOTES TO THE ACCOUNTS

13. INVENTORIES

	Group	
	2005	2004
	US$'000	US$'000
Bunkers	**7,606**	5,078
Lubricating oil	**1,512**	1,462
Marine products	**20**	24
	9,138	6,564

The carrying amounts of inventories approximate their fair values.

14. PLEDGED/RESTRICTED BANK DEPOSITS

	Group	
	2005	2004
	US$'000	US$'000
Non-current assets		
Restricted bank deposits *(Note a)*	**1,200**	4,150
Current assets		
Pledged bank deposits in connection with:		
Forward foreign exchange facility *(Note b)*	**130**	130
Restricted deposits *(Note c)*	**300**	1,780
	430	1,910

(a) Bank deposits are pledged to lending banks as securities for facilities granted to the Group *(Note 17(b))*.

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

(c) The 2005 amount was pledged for a bank guarantee issued to a forward freight agreement counter party with effective interest rate of 3.9% (2004:1.9%) and average maturity of 165 days (2004: 65 days). The 2004 amounts were retained by certain banks in relation to loan repayments.

The carrying amounts of pledged/restricted bank deposits approximate their fair values.

15. UNPLEDGED BANK BALANCES AND CASH

At 31 December 2005, US$21,000,000 (2004: US$Nil) of the unpledged bank balances and cash of the Group were placed on short term deposits with effective interest rate of 4.1% and an average maturity of 7 days.

At 31 December 2005, none (2004: Nil) of the unpledged bank balances and cash of the Company were placed on short term deposits.

NOTES TO THE ACCOUNTS

16. TRADE AND OTHER PAYABLES

	Group 2005 US$'000	Group 2004 US$'000
Trade payables	**2,869**	3,730
Accruals and other payables	**31,780**	24,179
Receipts in advance	**9,918**	7,406
	44,567	35,315

At 31 December 2005, the ageing analysis of trade payables is as follows:

	Group 2005 US$'000	Group 2004 US$'000
Less than 30 days	**1,437**	2,225
31 – 60 days	**248**	346
61 – 90 days	**326**	392
Over 90 days	**858**	767
	2,869	3,730

The carrying amounts of trade and other payables approximate their fair values.

17. LONG TERM BORROWINGS

	Group 2005 US$'000	Group (restated) 2004 US$'000
Non-current		
Finance lease liabilities *(Note a)*	**301,973**	–
Secured bank loans *(Note b)*	**–**	334,103
	301,973	334,103
Current		
Finance lease liabilities *(Note a)*	**14,912**	–
Secured bank loans *(Note b)*	**–**	36,021
	14,912	36,021
Total long term borrowings	**316,885**	370,124

The carrying amounts of long term borrowings approximate their fair values.

NOTES TO THE ACCOUNTS

17. LONG TERM BORROWINGS (CONTINUED)

(a) At 31 December 2005, the Group leased vessels under finance leases. Under the terms of the leases, the Group has options to purchase the vessels at any time throughout the charter periods. Lease liabilities are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

The effective interest rates on finance lease payables were fixed for the leases periods which range from approximately 6.6% to 7.0%.

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2005 are as follows:

	Group	
	2005	2004
	US$'000	US$'000
Gross liabilities under finance leases:		
Not later than one year	**36,138**	–
Later than one year but not later than five years	**144,465**	–
Later than five years	**294,499**	–
	475,102	–
Less: future finance charges on finance leases	**(158,217)**	–
	316,885	–

	Group	
	2005	2004
	US$'000	US$'000
Net liabilities under finance leases:		
Not later than one year	**14,912**	–
Later than one year but not later than five years	**71,074**	–
Later than five years	**230,899**	–
	316,885	–

NOTES TO THE ACCOUNTS

17. LONG TERM BORROWINGS (CONTINUED)

(b) Bank loans as at 31 December 2005 have been fully prepaid. The bank loans as at 31 December 2004 were secured, inter alia, by the following:

(i) Mortgages over all the Group's vessels and one vessel under construction of net book value totalling US$534,200,000 and certain bank deposits of US$4,150,000;

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

(iii) Charges over the shares of certain vessel owning subsidiaries.

The maturity of the Group's bank loans is as follows:

	Group	
		(restated)
	2005	2004
	US$'000	US$'000
Within one year	–	36,021
In the second year	–	33,521
In the third to fifth year	–	97,869
After the fifth year	–	202,713
	–	370,124

18. SHARE CAPITAL

Authorised share capital

	No. of shares of US$0.10 each					
	Class A	Class B	Class C	Ordinary shares	Total	US$'000
Upon incorporation	–	–	–	120,000	120,000	12
Conversion of shares	53,333.40	63,999.96	2,666.64	(120,000)	–	–
Increase in share capital on 15 March 2004	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	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	(1,600,002,000.00)	(1,919,998,800.00)	(79,999,200.00)	3,600,000,000	–	–
At 31 December 2004 and 2005	–	–	–	3,600,000,000	3,600,000,000	360,000

NOTES TO THE ACCOUNTS

18. SHARE CAPITAL (CONTINUED)

Issued share capital

	No. of shares of US$0.10 each					
	Class A	Class B	Class C	Ordinary shares	Total	US$'000
Allotted and issued nil paid	53,333.40	63,999.96	2,666.64	–	120,000	–
Issue of shares upon the exchange of shares completed on 30 March 2004	353,341,281.00	424,008,738.00	17,666,881.00	–	795,016,900	79,502
Repurchase of shares	(53,329.40)	(63,990.96)	(2,682.64)	–	(120,003)	–
Conversion of shares on 14 July 2004	(353,341,285.00)	(424,008,747.00)	(17,666,865.00)	795,016,897	–	–
Issue of shares for acquisition of subsidiaries	–	–	–	221,993,712	221,993,712	22,199
Issue of shares upon initial public offering on 14 July 2004	–	–	–	250,000,000	250,000,000	25,000
At 31 December 2004 and 1 January 2005	**–**	**–**	**–**	**1,267,010,609**	**1,267,010,609**	**126,701**
Shares purchased by trustee of the LTIS *(Note b)*	**–**	**–**	**–**	**(5,000,000)**	**(5,000,000)**	**(2,252)**
Shares transferred to employees under the LTIS *(Note b)*	**–**	**–**	**–**	**4,799,999**	**4,799,999**	**2,162**
Shares issued under the LTIS *(Note a)*	**–**	**–**	**–**	**15,730,000**	**15,730,000**	**1,573**
At 31 December 2005	**–**	**–**	**–**	**1,282,540,608**	**1,282,540,608**	**128,184**

(a) Share options

Share options were granted to Directors, senior management and certain employees on 14 July 2004 and 5 April 2005. The exercise prices of the granted options are equal to the market prices at the respective dates of grant. The options granted vest over three years and five years respectively, as follows:

Date of grant	Number of share options	Exercise price in HK$ per share	Vesting conditions	Expiry date
14 July 2004	55,500,000	2.500	in equal amounts on 14 July 2005, 2006 and 2007	14 July 2014
5 April 2005	5,000,000	3.875	in equal amounts on 5 April 2006, 2007, 2008, 2009 and 2010	5 April 2015

NOTES TO THE ACCOUNTS

18. SHARE CAPITAL (CONTINUED)

(a) Share options (continued)

Movements in the number of share options outstanding during the year and their related weighted average exercise prices are as follows:

	2005		2004	
	Average exercise price in HK$ per share	Number of options '000	Average exercise price in HK$ per share	Number of options '000
At 1 January	2.500	55,500	–	–
Granted	3.875	5,000	2.500	55,500
Exercised	2.500	(15,730)	–	–
At 31 December	2.654	44,770	2.500	55,500

Out of the 44,770,000 outstanding options (2004: 55,500,000 options), 5,170,000 options (2004: Nil) were exercisable at a price of HK$2.50. Options exercised in 2005 resulted in 15,730,000 shares (2004: Nil) being issued at HK$2.50 each (2004: HK$Nil). The related weighted average share price at the time of exercise was HK$3.87 (2004: HK$Nil) per share.

The fair value of options granted during the year determined by an independent third party valuer using the binomial model was US$0.8 million (2004: US$5.9 million).

Key assumptions used in the valuation of the options granted on 14 July 2004 and 5 April 2005 include (i) an expected dividend yield of 8% per annum, (ii) volatility of share price of 50% per annum, (iii) a risk-free rate of interest of 4% and 4.1% per annum on the respective grant dates, (iv) that the employees will exercise their share options if the share price is 100% above the exercise price, and (v) an expected rate of leaving service of eligible employees after the vesting date of 0.4% per annum.

(b) Restricted share awards

Following the approval of shareholders at a special general meeting on 8 June 2005, the Company's share option scheme (now called the "Long Term Incentive Scheme" or "LTIS") was amended to allow the Company to award restricted shares and restricted units as an alternative or in addition to granting share options. The trustee of the LTIS (which under New HKFRS is regarded as a special purpose entity of the Company) subsequently acquired five million shares of the Company on the Stock Exchange at a total cost of US$2,252,000 of which 4.8 million share awards were granted to certain employees on 8 June 2005. The shares granted were then transferred to the employees leaving 0.2 million shares held by the trustee at 31 December 2005.

The awards granted vest over a period of three or five years as follows:

Date of grant	Number of share awards	Vesting conditions
8 June 2005	3,333,333	in equal amounts on 5 April 2006, 2007, 2008, 2009 and 2010
8 June 2005	1,466,666	in equal amounts on 30 November 2005, 2006 and 2007

The fair value of the restricted share awards granted during the year was determined with reference to the market price of those shares at the date of grant.

NOTES TO THE ACCOUNTS

19. RESERVES

	Group						
	Share premium US$'000	**Merger reserve** US$'000	**Staff benefits reserve** US$'000	**Hedging reserve** US$'000	**Exchange reserve** US$'000	**Retained profits** US$'000	**Total** US$'000
Balance at 1 January 2004							
As previously reported	–	(56,606)	–	–	–	15,988	(40,618)
Prior year adjustment for the adoption of HKAS 16 for vessel component costs *(Note 2.2(vi))*	–	–	–	–	–	(1,769)	(1,769)
As restated	–	(56,606)	–	–	–	14,219	(42,387)
Exchange differences arising on translation of the accounts of foreign subsidiaries	–	–	–	–	54	–	54
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)
Share-based compensation *(Note 23)*	–	–	1,660	–	–	–	1,660
Profit attributable to shareholders	–	–	–	–	–	103,555	103,555
Dividends paid *(Note 27)*	–	–	–	–	–	(62,807)	(62,807)
Balance at 31 December 2004, as restated	105,794	(56,606)	1,660	–	54	54,967	105,869
Representing:							
2004 Proposed final dividend						25,990	
Others						28,977	
Retained profits as at 31 December 2004, as restated						54,967	

NOTES TO THE ACCOUNTS

19. RESERVES (CONTINUED)

	Group						
	Share premium US$'000	Merger reserve US$'000	Staff benefits reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2005							
As previously reported	105,794	(56,606)	–	–	54	56,693	105,935
Prior year adjustment for share-based compensation under HKFRS 2 *(Note 2.2(vi))*	–	–	1,660	–	–	(1,660)	–
Prior year adjustment for the adoption of HKAS 16 for vessel component costs *(Note 2.2(vi))*	–	–	–	–	–	(66)	(66)
Opening balance adjustment arising from the initial adoption of HKAS 39 *(Note 2.2(vi))*	–	–	–	–	–	(330)	(330)
As restated	105,794	(56,606)	1,660	–	54	54,637	105,539
Exchange differences arising on translation of the accounts of foreign subsidiaries	–	–	–	–	(56)	–	(56)
Shares transferred to employees under the LTIS to staff benefits reserve *(Note 18)*	–	–	(2,162)	–	–	–	(2,162)
Shares issued under the LTIS *(Note 18)*	5,159	–	(1,691)	–	–	–	3,468
Fair value losses of cash flow hedges *(Note 11(d))*	–	–	–	(1,360)	–	–	(1,360)
Share-based compensation *(Note 23)*	–	–	3,990	–	–	–	3,990
Profit attributable to shareholders	–	–	–	–	–	147,143	147,143
Dividends paid *(Note 27)*	–	–	–	–	–	(75,472)	(75,472)
Balance at 31 December 2005	110,953	(56,606)	1,797	(1,360)	(2)	126,308	181,090
Representing:							
2005 Proposed final dividend						57,948	
Others						68,360	
Retained profits as at 31 December 2005						126,308	

NOTES TO THE ACCOUNTS

19. RESERVES (CONTINUED)

	Company			
	Share premium US$'000	**Staff benefits reserve** US$'000	**Retained profits** US$'000	**Total** US$'000
Balance at 10 March 2004 (date of incorporation)	–	–	–	–
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)
Share-based compensation *(Note 23)*	–	1,660	–	1,660
Profit attributable to shareholders	–	–	56,060	56,060
Dividends paid *(Note 27)*	–	–	(31,342)	(31,342)
Balance at 31 December 2004, as restated	105,794	1,660	24,718	132,172
Representing:				
2004 Proposed final dividend			25,990	
Others			(1,272)	
Retained profits as at 31 December 2004, as restated			24,718	
Balance at 1 January 2005, as previously reported	**105,794**	**–**	**26,378**	**132,172**
Prior year adjustment for share-based compensation under HKFRS 2	**–**	**1,660**	**(1,660)**	**–**
As restated	**105,794**	**1,660**	**24,718**	**132,172**
Shares transferred to employees under the LTIS to staff benefits reserve *(Note 18)*	**–**	**(2,162)**	**–**	**(2,162)**
Shares issued under the LTIS *(Note 18)*	**5,159**	**(1,691)**	**–**	**3,468**
Share-based compensation *(Note 23)*	**–**	**3,990**	**–**	**3,990**
Profit attributable to shareholders *(Note 26)*	**–**	**–**	**155,074**	**155,074**
Dividends paid *(Note 27)*	**–**	**–**	**(75,472)**	**(75,472)**
Balance at 31 December 2005	**110,953**	**1,797**	**104,320**	**217,070**
Representing:				
2005 Proposed final dividend			**57,948**	
Others			**46,372**	
Retained profits as at 31 December 2005			**104,320**	

As at 31 December 2005, distributable reserves of the Company amounted to US$104.3 million (2004: US$24.7 million).

NOTES TO THE ACCOUNTS

20. OTHER INCOME

	2005 US$'000	2004 US$'000
Bank interest income	392	78
Finance lease interest income	343	–
Dividend income from investment securities	–	227
Other income	–	126
	735	431

21. DIRECT COSTS

	2005 US$'000	(restated) 2004 US$'000
Vessel operating costs	31,900	19,298
Charter-hire expenses for vessels	29,459	18,659
Depreciation of vessels	28,701	18,276
Shore-based overheads	20,727	11,017
Cost of marine products sold and consulting services	3,965	1,762
	114,752	69,012

Vessel operating costs comprise all technical expenses that are incurred in operating the owned and finance leased vessels. These include crew expenses, stores and spare parts, repairs and maintenance expenses, insurance and other miscellaneous running costs.

NOTES TO THE ACCOUNTS

22. OPERATING PROFIT

Operating profit is stated after charging/(crediting) the following:

	2005 US$'000	(restated) 2004 US$'000
Auditors' remuneration		
– Audit	**660**	252
– Non-audit	**293**	74
Amortisation of goodwill	**–**	1,329
Bunkers consumed	**48,894**	22,882
Cost of marine products sold	**2,085**	1,762
Depreciation for		
– owned vessels	**26,241**	18,276
– leased vessels	**2,460**	–
– other owned fixed assets	**863**	394
Employee benefit expenses including directors' emoluments *(Note 23)*	**23,439**	13,364
Lubricating oil consumed	**2,269**	1,509
Net exchange losses	**77**	74
Operating lease expenses for		
– vessels	**29,459**	18,659
– land and buildings	**1,662**	585
Provision for impairment of trade receivables[1]	**646**	195
Realised gains on derivative instruments not qualifying as hedges:		
– Bunker swap and forward contracts	**(2,863)**	–
Unrealised (gains)/losses on derivative instruments not qualifying as hedges:		
– Forward freight agreement	**180**	–
– Bunker swap and forward contracts	**(4,304)**	–

[1] Included in "General and administrative expenses"

NOTES TO THE ACCOUNTS

23. EMPLOYEE BENEFIT EXPENSES (INCLUDING DIRECTORS' EMOLUMENTS)

	2005 US$'000	(restated) 2004 US$'000
Directors' fees	**235**	124
Salaries and bonus	**18,528**	11,334
Share-based compensation	**3,990**	1,660
Retirement benefit costs	**686**	246
	23,439	13,364

(a) Directors' emoluments

The Company's Board is currently composed of five non-executive Directors and four executive Directors.

The aggregate amount of emoluments payable to the Directors of the Company during the year was US$5.0 million (2004: US$2.6 million). Details of Directors' remuneration are disclosed in sections 2, 3 and 4 of the Remuneration Report on pages 48 and 49.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2004: three) Directors whose emoluments are reflected in note (a) above and amounted to US$4.8 million (2004: US$2.5 million). The emoluments payable to the remaining individual (2004: two) during the year were US$0.8 million (2004: US$1.1 million). Further details are disclosed in section 6 of the Remuneration Report on page 50.

24. FINANCE COSTS

	2005 US$'000	2004 US$'000
Interest on bank loans	**11,548**	8,670
Interest on finance leases	**4,161**	–
Loan arrangement fees	**1,657**	1,188
Other finance charges	**588**	357
Fair value loss /(gain) on interest rate swaps contracts:		
– realised	**1,001**	–
– unrealised	**(1,015)**	–
	17,940	10,215

NOTES TO THE ACCOUNTS

25. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the year.

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:

	2005	2004
	US$'000	US$'000
Current taxation		
Hong Kong profits tax	**548**	406
Overseas tax	**231**	79
	779	485

Below is the 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.

	2005	2004
	US$'000	US$'000
Profit before taxation	**147,922**	104,040
Aggregate tax at the rates of taxation prevailing in the countries in which the Group operates	**751**	813
Income not subject to taxation	**(333)**	(549)
Expenses not deductible for taxation purposes	**361**	221
Taxation charge	**779**	485

There was no material unprovided deferred taxation at 31 December 2005 (2004: US$Nil).

26. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company to the extent of US$155,074,000 (Period from 10 March 2004 (date of incorporation) to 31 December 2004: US$56,060,000).

NOTES TO THE ACCOUNTS

27. DIVIDENDS

	2005 **US$'000**	2004 US$'000
Dividends attributable to the previous year, approved and paid during the year:		
Final dividend paid in 2005 in respect of the year ended 31 December 2004 of 16 HK cents (equivalent to 2 US cents) per share	**–**	25,990
Dividends attributable to the year:		
Proposed final dividend declared and payable after the year ended 31 December 2005 of 35 HK cents (equivalent to 4.5 US cents) per share *(Note a)*	**57,948**	–
Interim dividends declared and		
– paid in 2005 of 30 HK cents (equivalent to 3.9 US cents) per share	**49,482**	–
– paid in 2005 of 8 HK cents (equivalent to 1 US cent) per share	**–**	12,995
– paid in 2004 to shareholders of the Company immediately prior to listing of 2 US cents per share *(Note b)*	**–**	18,347
Dividend declared and paid in 2004 by companies now comprising the Group to the then shareholders prior to listing	**–**	31,465
	107,430	88,797

(a) The dividend, which was declared on 6 March 2006, was 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 2006.

(b) On 14 July 2004, the Directors declared an interim dividend of 2 US cents per share to the Company's shareholders on the morning of the date of listing, not including the public shareholders.

NOTES TO THE ACCOUNTS

28. EARNINGS PER SHARE

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's LTIS.

	2005	(restated) 2004
Profit attributable to shareholders (US Dollars in thousands)	**147,143**	103,555
Weighted average number of ordinary shares in issue (in thousands)	**1,270,944**	1,079,319
Basic earnings per share	**US 11.58 cents**	US 9.59 cents
Equivalent to	**HK 89.72 cents**	HK 74.80 cents

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year after adjusting for the number of potential dilutive ordinary shares granted under the Company's LTIS.

	2005	(restated) 2004
Profit attributable to shareholders (US Dollars in thousands)	**147,143**	103,555
Weighted average number of ordinary shares in issue (in thousands)	**1,270,944**	1,079,319
Adjustments for share options (in thousands)	**12,483**	4,925
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,283,427**	1,084,244
Diluted earnings per share	**US 11.46 cents**	US 9.55 cents
Equivalent to	**HK 88.79 cents**	HK 74.49 cents

5,000,000 share options under the LTIS were not included in the calculation of diluted earnings per share as they are antidilutive for the year.

NOTES TO THE ACCOUNTS

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

	Group	
		(restated)
	2005	2004
	US$'000	US$'000
Operating profit	**162,371**	111,761
Adjustment for:		
Interest income	**(735)**	(78)
Depreciation	**29,564**	18,670
Gain on disposal of fixed assets	**(23,516)**	–
Amortisation of goodwill	**–**	1,329
Dividend income from investment securities	**–**	(227)
Exchange differences	**(56)**	54
Unrealised gains on derivatives that do not qualify for hedge accounting excluding interest rate swaps	**(4,124)**	–
Share-based compensation	**3,990**	1,660
Operating profit before working capital changes	**167,494**	133,169
Increase in inventories	**(2,574)**	(1,449)
Decrease/(increase) in trade and other receivables	**176**	(2,205)
Increase in trade and other payables	**8,924**	1,437
Cash generated from operations	**174,020**	130,952

(b) Analysis of cash and cash equivalents

	Group	
	2005	2004
	US$'000	US$'000
Bank balances and cash	**83,711**	47,711
Less: restricted and pledged bank deposits	**(1,630)**	(6,060)
	82,081	41,651

(c) Major non-cash transaction

In 2005, the Group leased out one of its owned vessels on a long term basis, which was classified as a finance lease. The carrying value of the vessel at the inception of the transaction was US$13.7 million with a corresponding finance lease receivables recognised in the balance sheet of US$15.5 million.

NOTES TO THE ACCOUNTS

30. COMMITMENTS

(a) Capital commitments

	Group 2005 US$'000	2004 US$'000
Contracted but not provided for in relation to		
– vessel acquisitions and shipbuilding contracts	**158,878**	105,705
– investment in a jointly controlled entity	**1,792**	–
– land and building	**907**	–
	161,577	105,705

Capital commitments that fall due not later than one year amounted to US$52.6 million.

(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 US$'000	Vessels US$'000	Total US$'000
At 31 December 2005			
Not later than one year	**1,134**	**52,824**	**53,958**
Later than one year but not later than five years	**1,107**	**129,613**	**130,720**
Later than five years	**–**	**40,677**	**40,677**
	2,241	**223,114**	**225,355**

	Land and buildings US$'000	Vessels US$'000	Total US$'000
At 31 December 2004			
Not later than one year	960	17,600	18,560
Later than one year but not later than five years	1,663	16,733	18,396
	2,623	34,333	36,956

NOTES TO THE ACCOUNTS

30. COMMITMENTS (CONTINUED)

(b) Commitments under operating leases (continued)

(ii) The Group as the lessor

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

	2005 US$'000	2004 US$'000
Not later than one year	34,196	22,772
Later than one year but not later than five years	26,208	17,859
	60,404	40,631

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

Significant related party transactions, which were carried out in the normal course of the Group's business, were as follows:

(a) Purchases of services

	2005 US$'000	2004 US$'000
Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") *(Note i)*	245	199
Amounts payable to China Line Shipping Limited *(Note ii)*	6,204	5,175

(i) The Group entered into certain insurance contracts 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.

(ii) The Group paid to China Line Shipping Limited, a jointly controlled entity freight and charter hire, net of bunkers, port disbursement and other charges which were calculated based on the vessel's pool points.

(b) Sales of services

	2005 US$'000	2004 US$'000
Charter hire income received from Asia Logistics Group Limited *(Note i)*	3,476	4,415
Commission income received from Asia Logistics Group Limited *(Note ii)*	211	–

(i) The Group leased out certain vessels to Asia Logistics Group Limited, a jointly controlled entity.

(ii) The Group derived commission income from fixing of vessels for Asia Logistics Group Limited, a jointly controlled entity.

NOTES TO THE ACCOUNTS

31. SIGNIFICANT RELATED PARTY TRANSACTIONS (CONTINUED)

(c) Key management compensation (including Directors' emoluments)

	2005 US$'000	2004 US$'000
Directors' fees	235	124
Salary and bonus	4,613	3,226
Retirement benefit costs	11	6
Share-based compensation	2,090	753
Termination benefits	154	–
	7,103	4,109

32. PRINCIPAL SUBSIDIARIES

At 31 December 2005, the Company has direct and indirect interest in the following subsidiaries:

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2005 %	Interest held 2004 %	Principal activities
Shares held directly:					
PB Management Holding Limited	The British Virgin Islands	12,313 shares of US$1 each	100	100	Investment holding
PB Vessels Holding Limited	The British Virgin Islands	101,118,775 shares of US$1 each	100	100	Investment holding
Shares held indirectly:					
Abbot Point Limited	Hong Kong/International	1 share of HK$1	100	100	Vessel owning and chartering
Beckley (HK) Limited	Hong Kong/International	3,000,010 ordinary shares of US$1 each	100	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 Knox Limited	Hong Kong/International	1 share of HK$1	100	100	Vessel owning

NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2005 %	Interest held 2004 %	Principal activities
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**	100	Investment holding
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	Hong Kong/International	1 share of HK$1	**100**	100	Vessel owning and chartering
Foreview (HK) Limited	Hong Kong/International	10 Class 'A' shares of US$1 each, 2,500,000 Class 'B' shares of US$1 each	**100**	100	Vessel owning and chartering
Foreview Holdings Limited	Hong Kong	2,500,000 ordinary shares of US$1 each	**100**	100	Investment holding
Gold River Shipping Limited	Hong Kong/International	1 share of HK$1	**100**	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
IHC Chartering (UK) Limited	England & Wales	2 shares of GBP1 each	**100**	100	Provision of shipping management services
International Handybulk Carriers Management Limited	The British Virgin Islands/ Hong Kong	10 shares of US$1 each	**100**	100	Provision of shipping management services

NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2005 %	Interest held 2004 %	Principal activities
Judith Shipping (BVI) Limited	The British Virgin Islands/ International	3,800,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Mount Rainier Limited	Hong Kong/International	1 share of HK$1	**100**	100	Vessel owning and chartering
Oak Harbour Limited	Hong Kong/International	1 share of HK$1	**100**	100	Vessel owning and chartering
Pacific Basin Chartering Limited	The British Virgin Islands/ Hong Kong	10 shares of US$1 each	**100**	100	Vessels chartering
Pacific Basin Ship Management Limited	Hong Kong	1 share of HK$1	**100**	100	Provision of ship management services
Pacific Basin Shipping (HK) Limited	Hong Kong	2 shares of HK$10 each	**100**	100	Provision of ship agency services
Pacific Basin Shipping (Australia) Pty Ltd	Australia	1 share of AUD1	**100**	100	Provision of shipping consulting services
Pacific Basin Shipping (UK) Limited	England & Wales	2 shares of GBP1 each	**100**	100	Provision of shipping consulting services
Pacific Basin Shipping (USA) Inc. [1]	The United States of America	100 shares of US$10 each	**100**	100	Provision of shipping management services
Pacific Basin Shipping Consulting (Shanghai) Limited [1 & 2]	PRC	US$200,000 (registered capital)	**100**	100	Provision of shipping consulting services

NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2005 %	Interest held 2004 %	Principal activities
PacMarine Services (HK) Limited	Hong Kong	2 shares of HK$1 each	100	100	Provision of surveying and consultancy services
PacMarine Services (UK) Limited [1]	England & Wales	1,000 shares of GBP1 each	100	100	Provision of surveying and consultancy services
PacMarine Services Pte. Ltd.	Singapore	1,000 shares of S$1 each	100	100	Provision of surveying and consultancy services
PMS Services Co., Ltd.	Korea	10,000 shares of 5,000 Won each	100	100	Provision of survey services
Taylor Shipping (BVI) Limited	The British Virgin Islands/ Hong Kong	10 shares of US$1 each	100	100	Vessel chartering
Union Bay Limited	Hong Kong/International	1 share of HK$1	100	100	Vessel owning
Verner Shipping (BVI) Limited	The British Virgin Islands/ Hong Kong	100 shares of US$0.01 each	100	100	Vessel chartering
Wharton Shipping Limited	The British Virgin Islands/ International	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Bright Cove Limited	Hong Kong/International	1 share of HK$1	100	–	Vessel owning and chartering
Crescent Harbour Limited	Hong Kong/International	1 share of HK$1	100	–	Vessel owning and chartering
Eaglehill Trading Limited	Hong Kong/International	1 share of HK$1	100	–	Vessel owning and chartering

NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2005 %	2004 %	Principal activities
Famous Time Group Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel owning and chartering
Future Sea Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel owning and chartering
Lake Joy Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel owning and chartering
Lake Stevens Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel owning and chartering
Good Shape Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel owning and chartering
Widen Holdings Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel owning and chartering
Pacific Basin Bulk Chartering Limited	The British Virgin Islands	1 share of US$1	**100**	–	COAs for non-handysize business
Pacific Basin Bulk Chartering (UK) Limited	England and Wales	1 share of GBP1	**100**	–	COAs for non-handysize business
Pacific Basin Chartering (No. 1) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 2) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 3) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 4) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering

NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2005 %	2004 %	Principal activities
Pacific Basin Chartering (No. 5) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 6) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 7) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 8) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 9) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 10) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 11) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 14) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 15) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 16) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering
Pacific Basin Chartering (No. 17) Limited	Hong Kong/International	1 share of HK$1	**100**	–	Vessel chartering

NOTES TO THE ACCOUNTS

32. PRINCIPAL SUBSIDIARIES (CONTINUED)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2005 %	2004 %	Principal activities
Pacific Basin Shipping (Canada) Limited	Province of British Columbia, Canada	1 common share without par value	**100**	–	Provision of shipping consulting service
Pacific Basin Shipping (Germany) GmbH	Germany	1 share of EUR25,000	**100**	–	Provision of shipping consulting and advisory service
PB Markets Limited	The British Virgin Islands	1 share of US$1	**100**	–	Forward freight agreement chartering party
IHC Chartering Limited	The British Virgin Islands	10 shares of US$1 each	**100**	100	Provision of shipping management services
Pacific Basin Agencies Limited	Hong Kong/International	1 share of HK$1	**100**	100	Holding company of a branch in Japan

[1] The accounts of these subsidiaries have not been audited by PricewaterhouseCoopers. The aggregate net assets and losses for the year attributable to the shareholders of the Group amounted to approximately US$66,000 (2004: US$71,000) and US$91,000 (2004: US$191,000) respectively.

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

GROUP FINANCIAL SUMMARY

The following table summarises the results, assets and liabilities of the Group for each of the five years ended 31 December 2005:

US$'000	**2005**	2004	2003	2002	2001
Results					
Turnover	**433,704**	302,244	54,188	27,924	18,257
Bunkers, port disbursement and other charges	**(131,492)**	(61,033)	–	–	–
Amounts payable to other pool members	**(37,529)**	(52,328)	–	–	–
Time charter equivalent earnings	**264,683**	188,883	54,188	27,924	18,257
Profit/(loss) before taxation and disposal gains	**124,406**	104,040	22,686	(2,354)	3,256
Profit/(loss) before taxation	**147,922**	104,040	22,686	(2,027)	3,256
Taxation	**(779)**	(485)	–	–	–
Profit/(loss) attributable to shareholders	**147,143**	103,555	22,686	(2,027)	3,256
Pre-listing dividends	**NA**	49,812	13,900	–	–
Post-listing dividends	**107,430**	38,985	NA	NA	NA
Basic earnings per share (US cents)	**11.58**	9.59	2.85	(0.25)	0.41
Assets and liabilities					
Total assets	**674,117**	652,805	212,702	192,515	148,242
Total liabilities	**(364,843)**	(420,235)	(173,818)	(169,447)	(123,148)
Net assets	**309,274**	232,570	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 sets out the details of the basis of preparation of the consolidation. Prior year adjustments were not made for the results extracted for the three years ended 31 December 2003, 2002 and 2001 following the adoption of new/revised HKFRS effective from 1 January 2005 as they are considered immaterial. The results of the Group for the year ended 31 December 2004 and 2005 and its assets and liabilities as at 31 December 2004 and 2005 are those set out on pages 67 to 127 of the accounts and are presented on the basis as set out in Note 2 to the accounts.

NOTICE OF ANNUAL GENERAL MEETING

NOTICE IS HEREBY GIVEN that the 2006 Annual General Meeting of Pacific Basin Shipping Limited (the "Company") will be held at Salon I & II of The Grand Hyatt Hotel at No. 1 Harbour Road, Wanchai, Hong Kong on Friday, 7 April 2006 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 2005;

2. To declare a final dividend for the year ended 31 December 2005;

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 long term incentive scheme of the Company or any scrip 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

NOTICE OF ANNUAL GENERAL MEETING

(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;

NOTICE OF ANNUAL GENERAL MEETING

(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. "**THAT**

(a) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the directors of the Company pursuant to paragraph (b) of the ordinary resolution passed by shareholders at a special general meeting of the Company held on 8 June 2005 to satisfy Share Awards, shall during the Relevant Period not exceed 2% of the aggregate nominal amount of the share capital of the Company in issue as at the beginning of each such financial year (being 25,654,812 Shares as at 1 January 2006); and

(b) for the purposes of this resolution, "Relevant Period" means the period from the passing of this resolution until 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 ordinary resolution of the shareholders of the Company in general meeting."

By Order of the Board
Andrew T. Broomhead
Company Secretary

Hong Kong,
15 March 2006

NOTICE OF ANNUAL GENERAL MEETING

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 2005 of 35 HK cents per share and if such dividend is declared by the Shareholders passing Resolution No. 2, it is expected to be paid on or about 13 April 2006 to those Shareholders whose names appear on the Company's register of Shareholders on 7 April 2006.

5. The register of members of the Company will be closed from 4 April 2006 to 7 April 2006 (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 4:00 p.m. on 3 April 2006. The ex-dividend date for the final dividend will be on 31 March 2006.

6. 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 the renewal of the 2% annual cap within the issue mandate under the Long Term Incentive Scheme will be sent to Shareholders of the Company together with the Company's 2005 Annual Report.

GLOSSARY OF TERMS

"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 on spot rates for larger bulk carriers) generated by the Baltic Exchange
"Baltic Supramax Index" or "BSI"	the BSI is published every London working day by the Baltic Exchange, who have collated information on fixtures for a number of routes in relation to a Standard "Tess 52" type vessel. This vessel is 52,454 mt dwt, with 4 x 30 mt cranes and grabs, and maximum 10 years of age. The index is published on the basis of a Time Charter return, and is used to determine the trading routes and settlement prices for FFAs
"Bareboat Charter-party"	document containing the contract between the owner of a ship and the bareboat charterer, and signed by both, in which are all the terms and conditions such as the period of the charter, the rate of hire, the trading limits and all the rights and responsibilities of the two parties
"bareboat charter (to)"	to hire or lease a ship for a period of time during which the shipowner provides only the ship while the charterer provides the crew together with all stores and bunkers and pays all operating costs
"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

GLOSSARY OF TERMS

"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 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 and Share Repurchases 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.
"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

GLOSSARY OF TERMS

"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
"FFAs"or "Forward Freight Agreements"	provide a means of hedging exposure to freight market risk through the purchase or sale of specified time charter rates for forward positions. Settlement is in cash, against a daily market index published by the Baltic Exchange.
"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 59,999dwt which carries a wide variety of cargoes including major and minor bulk cargoes
"Handysize"	dry bulk carrier of 10,000 to 39,999dwt 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
"ISM Code"	the International Management Code for the Safe Operation of Ships and for Pollution Prevention adopted by the International Maritime Organisation
"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
"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
"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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