Prospective applicants for the Offer Shares should consider carefully all of the information set out in this prospectus and, in particular, the following risk factors in connection with an investment in our Company.

Risks Relating to Our Business

We operate in an industry which is highly cyclical and subject to seasonal fluctuations

Our Company specialises in the ownership, operation, employment and management of vessels principally in the Handysize dry bulk carrier sector. The shipping industry has been highly cyclical and subject to seasonal fluctuations, experiencing volatility in revenues, profitability and vessel values resulting from changes in the supply of and demand for shipping capacity. The demand for ships is and charter rates are influenced by global and regional economic conditions, developments in international trade, changes in seaborne and other transportation patterns, weather patterns, crop yields, armed conflicts, canal closures, foreign exchange fluctuations, embargoes and strikes, among other factors. Demand for the transportation of dry bulk commodities may decline and is affected by, among other things, general economic conditions, the demand for those commodities, commodity prices, environmental concerns, weather and competition from alternative sources of supply for those commodities.

The supply of shipping capacity is a function of the size of the existing global fleet, its operational efficiency, the impact of port congestion, the delivery of new vessels and the number of older vessels scrapped, in lay-up, converted to other uses, deactivated or lost. Such supply may be affected by regulation of maritime transportation practices by governmental and international authorities. Furthermore, there can be no assurance that there will not be an unexpected increase in the delivery of new vessels which operate in the dry bulk shipping market.

The factors influencing the demand for and supply of vessel capacity are outside our control and the nature, timing and degree of changes in industry conditions are unpredictable and may have a material adverse effect on our business, financial position and results of operations.

We operate in a highly competitive industry

The dry bulk shipping industry is highly fragmented with many shippers, owners and operators of vessels and is characterised by intense competition. The trend towards consolidation in the industry is creating an increasing number of global enterprises capable of competing in many markets. Competition may increase in some or all of our principal markets and may have an adverse effect on our financial position and results of operations, including increased pressure on margins. These competitors may be able to devote greater resources to the development, promotion and employment of their businesses than us. There can be no assurance that we will be able to continue to compete successfully and the competitive environment may have a material adverse effect on our business, financial position and results of operations.

We operate in a highly regulated industry

The shipping industry is highly regulated and our operations are affected by extensive and changing environmental protection laws and other regulations, compliance with which may entail significant expenses, including expenses for ship modifications and changes in operating procedures.

Our vessels have to operate within the rules, international conventions and regulations adopted by the International Maritime Organisation, an agency of the United Nations, as well as the environmental protection laws, health and safety regulations and other marine protection laws in each of the jurisdictions in which our vessels operate. An overview of the regulatory environment we operate in is described in the section headed "Business — Regulatory Overview" in this prospectus.

In complying with IMO regulations and other regulations that may be adopted, we may be required to incur additional costs in meeting new maintenance and inspection requirements, in developing contingency arrangements for potential contamination by vessels and in obtaining insurance coverage. Additional laws and regulations may be adopted which could limit our ability to do business and which could have a material adverse effect on our business, financial position and results of operations.

We may experience fluctuations in our operating results

Our operating results are highly dependent on the prevailing charter rates in a given time period. Charter rates are based in part on supply and demand and are extremely competitive. Significant fluctuations in charter rates may result in significant fluctuations in the earnings of the vessels. If rates were to decrease significantly, our earnings could be adversely impacted.

Our earnings may be adversely affected if we do not successfully arrange charters for our vessels. The potential risks that may add to overall expenses include unexpected labour strikes, severe weather conditions, lengthy quarantines, mechanical failures or human error (including revenue lost in off-hire days), arrest action against our vessels due to failure to pay debts, unexpected drydock repairs and increases in bunker costs. Our operating results may be affected by the volatility in the price of bunkers. A significant rise in bunker prices may have an adverse impact on the cost of our forward contract cover and hence our earnings, as it is not possible to predict the future price of bunkers when fixing forward contract cover for an extended period. The rise and fall of bunker prices are dictated by the uncertainties in the world oil markets, which are beyond our control.

Any of these events may result in substantial loss of revenue or increased expenses.

An economic slowdown in the Asia Pacific region may have a material adverse effect on our business, financial position and results of operations

A significant number of the port calls made by our Fleet involve the loading or discharging of cargo in ports in the Asia Pacific region. As a result, economic conditions in any of these countries, but particularly Japan or China, may have an effect on our business, financial position and results of operations, as well as our future prospects. In particular, in recent years, China has been one of the world's fastest growing economies in terms of GDP growth. We cannot assure you, however, that such growth will be sustained or that the Chinese economy will not experience negative growth in the future. Moreover, any slowdown in the economies of the United States, the European Union and certain Asian countries may adversely affect economic growth in China and elsewhere. We cannot assure you that our business, financial position and results of operations, as well as our future prospects, will not be materially and adversely affected by an economic downturn in any of these countries.

We may not be able to grow or to manage our growth effectively

A principal focus of our strategy is to grow by expanding our existing customer relationships, developing new customer relationships and by taking advantage of changing market conditions, which may include expanding or changing the composition of our Fleet or our geographic focus, entering into new strategic alliances or engaging in the seaborne transportation of other bulk commodities. Our future growth will depend upon a number of factors, some of which we can control and some of which we cannot. These factors include, but are not limited to, our ability to maintain, expand or develop our customer relationships, identify suitable secondhand vessels or newbuildings for purchase, identify businesses engaged in managing, operating, or owning bulk carriers for acquisition, joint ventures or alliances, hire, train and retain qualified personnel to manage and operate our growing business and fleet, and identify additional new markets.

The failure to manage any of these factors effectively, including our ability to identify, purchase, develop and integrate into our Group any new vessels or businesses, could adversely affect our business, financial position and results of operations.

Our customers may default on their obligations under our contracts with them

As we operate in a highly fragmented market, our customer base is large and diverse. Although we try to ensure that we do business with high quality customers as frequently as possible, there is no assurance that all our business will be transacted with such customers. Generally, there is limited financial information available about these counterparties. As a result, counterparty risk is largely assessed on the basis of their reputation in the market place and there can be no assurance that any of our customers can fulfil their obligations under the contracts we enter into with them. In addition to non-payment of freight and hire, the other potential risks that are associated with a defaulting counterparty include the cost of bringing the cargo to the destination if the cargo is already loaded on board our vessel at the time of the default. If our vessel is chartered out on Time Charter then additional costs such as port expenses and stevedoring costs may be incurred. There can be no assurance that our customers will not default on their obligations under our contracts with them and such default may have a material adverse effect on our business, financial position and results of operations.

There are risks associated with the construction of new vessels and the purchase of secondhand vessels

We are required to expend substantial sums in the form of down payments and progress payments during the construction of newbuildings, but do not derive any revenue from these vessels until after their delivery. If we are unable to complete payments under any of our newbuilding contracts, we may forfeit all or a portion of the down payments and progress payments made with respect to such contracts. There can be no assurance that the Contracted Newbuildings will be completed on schedule or at all. Delays in the delivery of, or failure to deliver, one or more of the Contracted Newbuildings could have an adverse effect on our business, financial position and results of operations.

Sellers of secondhand vessels typically provide very limited or no warranties with respect to the condition of the vessel. In addition, our inspections of secondhand vessels prior to purchase would not normally provide us with the same knowledge about the condition of the vessel that we would have if the vessel had been built for or operated by us. There can be no assurance that the purchase of secondhand vessels will not result in higher than anticipated operating expenditures, including repair costs.

Increases in commodity prices, particularly steel, may result in such costs being passed on to the purchaser of a newbuilding.

Our Company's business strategies are based in part upon the expansion of our Handysize dry bulk carrier fleet and the development of a Handymax dry bulk carrier fleet. There can be no assurance that vessels meeting our size and quality requirements will be available at prices or delivery times acceptable to us.

We may not be able to maintain the size of our Owned Fleet, Chartered Fleet or Managed Fleet

The size of our Owned Fleet may decrease as we may be unable to find suitable replacements for our vessels due to the risks associated with the construction of new vessels and the purchase of secondhand vessels detailed above.

Similarly, the size of our Chartered Fleet may decrease as each charter is for a specific period of time and we may not be able to find suitable ships at acceptable rates and charter periods to replace them.

Substantially all of the vessels in our Managed Fleet are managed through the IHC Pool. Participation in the IHC Pool enhances the financial performance of our Fleet as a result of better market coverage and scheduling flexibility. Any participant in the IHC Pool has the right to remove its vessel(s) from the IHC Pool on three months' notice.

Contracts of Affreightment require us to provide shipping services in the future at pre-determined prices. If our Fleet decreases below the number of vessels needed to meet those commitments or the cost of chartering in vessels increases above the pre-determined prices, we may suffer losses.

A significant decrease in the number of vessels in our Fleet could adversely affect our ability to market our Fleet and have a material adverse effect on our business, financial position and results of operations.

There are risks associated with debt finance which could adversely affect our business, financial position or results of operations

A significant portion of the acquisition price for the vessels in our Owned Fleet has been funded by debt finance and we have also arranged debt finance to fund progress payments on the Contracted Newbuildings. We also intend to finance part of the purchase price of additional vessels with debt finance and consider refinancing some of our existing loan agreements to take advantage of financing on a fleet-wide basis. However, there can be no assurance that we will be successful in obtaining such financing or in refinancing such existing debt.

We are subject to the risks that our cash flow from operations will be insufficient to meet required payments of principal and interest, that such debt will not be able to be refinanced or that the terms of such refinancings will not be as favourable as the existing terms and that our capital requirements, principally for vessel acquisitions, will not be able to be financed on favourable terms or at all.

Our existing financing agreements impose operating and financial covenants on us. A decline in vessel values below a specified percentage of the relevant outstanding loan could require a prepayment of certain of our outstanding loans. Other covenants limit or prohibit our ability, among other things, to incur additional debt, sell share capital, sell vessels, form or acquire any subsidiaries or other assets, make certain investments, engage in mergers and acquisitions, make certain capital expenditures, or pay dividends.

Failure to comply with any of the covenants in our existing or future financing agreements could result in a default under those agreements and under other agreements containing cross default provisions. A default would permit lenders to accelerate the maturity of the debt under these agreements and to foreclose upon any collateral securing that debt. Under these circumstances, we might not have sufficient funds or other resources to satisfy all of our obligations, including our obligations under the outstanding debt. In addition, the secured nature of a portion of our debt, together with the limitations imposed by financing agreements on our ability to incur additional debt and to take other actions, might significantly impair our ability to obtain other financing.

Some of our existing financing agreements also impose restrictions on changes of control of us or our ship-owning subsidiaries, including requirements for prior consent and requirements that we make an offer to redeem certain debt.

We are exposed to currency and interest rate fluctuations

The functional currency for all our financial reporting is US dollars. Because we generate nearly all our revenues in US dollars, but incur some of our costs, expenses and capital expenditures in other currencies, exchange rate fluctuations could adversely affect our results of operations. A change in exchange rates could lead to fluctuations in reported net income due to changes in the value of these relevant currencies to the US dollar.

Our debt generally bears interest at floating rates and some or all of the new debt to be incurred by us may bear interest at floating rates, so we are subject to the risk that our interest expenses may increase if interest rates rise, which would adversely affect the results of our operations.

We may not be able to attract and retain key management personnel, employees and crews, which could adversely affect the results of our operations

We may be unable to attract and retain key management personnel, other employees and crews in the shipping industry, which would negatively affect the effectiveness of our management and our results of operations. Our management personnel make key decisions to maximise our revenue and earnings in a highly volatile and cyclical industry. Our success will depend, in part, on our ability to hire and retain key members of our management team. The loss of any of these individuals could adversely affect our business, financial position or results of operations. Difficulty in hiring and retaining qualified personnel and crew could also adversely affect the results of our operations.

Acts of God, acts of war, terrorist attacks, epidemics and other events could adversely affect our business

Our business is subject to general economic and social conditions around the world and particularly in the Asia Pacific region. Natural disasters, epidemics, acts of God and other events which are beyond our control may adversely affect local economies, infrastructures and livelihoods. Our business, operating results and financial position may be adversely affected in a material respect if such disasters, acts or events occur, even if they occur in areas in which we do not directly operate.

Acts of war may cause damage or disruption to our business, employees, facilities, markets and our customers, any of which could materially impact our revenues, costs of operations, overall results and financial condition or Share price. The potential for war may also cause uncertainty and cause our business to suffer in ways that we cannot currently predict. Our present geographic focus on Asia may make us vulnerable in the event of increased tension or hostilities in many countries including China, Taiwan or North Korea.

Terrorist attacks such as the attacks on the United States on 11 September 2001 and the United States' on-going response to these attacks, as well as the threat of future terrorist attacks, continue to cause uncertainty in the world financial markets. The recent conflict in Iraq may lead to additional acts of terrorism and armed conflict around the world, which may contribute to further economic instability in the global financial, energy and commodities markets. These uncertainties could also adversely affect our ability to obtain additional financing on terms acceptable to us or at all.

Future terrorist attacks may also negatively affect our operations and financial condition and directly impact our vessels or our customers. Future terrorist attacks could result in increased volatility of regional or world financial markets and could result in regional or world economic recession. Any of these occurrences could adversely affect our business, financial position and results of operations.

We may not have sufficient insurance and may be unable to maintain existing insurance coverage

The operation of any ocean-going vessel has an inherent risk of sinking, collision and other marine disasters, environmental pollution, cargo and property loss or damage, and business interruption caused by mechanical failure, human error, political action, labour strikes, adverse weather conditions and other circumstances or events. Any such circumstance or event could result in loss of revenues or increased costs.

We have arranged for insurance against certain of these risks. However, there can be no assurance that all risks are adequately insured against, that any particular claim will be paid or that we will be able to procure adequate insurance coverage at commercially reasonable rates in the future. In particular, stricter environmental regulations may result in increased costs for, or the unavailability of, insurance against the risks of environmental damage or pollution.

The insurance policies do not cover the following risks: (i) damage caused by wear and tear; and (ii) damage caused by wilful misconduct of ship's crew and office managers. We have not purchased the type of insurance covering loss of revenue due to delay or detention caused by political unrest, labour strikes, arrest, crew desertion, crew illness, infectious diseases, stowaways, drug seizure, inability to load or discharge cargo which are considered as trading risks. We will not be able to maintain the existing insurance coverage if we are in wilful breach of warranties.

Our insurance contains certain standard deductibles, limitations and exclusions, including limitations and exclusions with respect to certain losses arising from acts of war, terrorism, malicious acts, nuclear forces and wilful misconduct or fraud. In addition, in the event that claims are asserted against us, our vessels could be subject to arrest or other judicial process.

In November 2002, the United States passed the Terrorism Risk Insurance Act of 2002 which was principally designed to cover real estate risk and did not take into account directly the specifics of the marine insurance market. Under this Act, P&I Associations are required to offer liability insurance coverage of up to US$4.5 billion in respect of terrorism risks to all US flagged ships and to all ships trading to the United States. Whilst it is a requirement that insurers offer this cover, it is not a requirement that the consumer (in this case the ship owner) takes out such cover. As the premium for such cover is prohibitively high, we, in accordance with industry practice, have not subscribed for this additional insurance coverage.

By declining such additional cover, our current P&I coverage in respect of terrorism risks continues, and is limited to US$400 million per vessel per incident. As such, in the event of an act of terrorism on one of our vessels in the United States, any claims in excess of our insured cover would be uninsured and could potentially be extremely detrimental to our business.

We are indemnified for legal liabilities incurred while operating our Owned Fleet and Chartered Fleet through membership in P&I Associations, and we procure that the owners of our Managed Fleet and Chartered Fleet similarly indemnify themselves through membership in P&I Associations. P&I Associations are mutual insurance associations whose members must contribute to cover losses sustained by other association members. The objective of a P&I Association is to provide mutual insurance based on the aggregate tonnage of the members' vessels entered into the association. Claims are paid through the aggregate premiums of all members of the association, although members remain subject to calls for additional funds if the aggregate premiums are insufficient to cover claims submitted to the association. Claims submitted to the association may include those incurred by members of the association, as well as claims submitted to the association from other P&I Associations where the association has entered into interclub agreements. There is a risk that the P&I Associations to which we belong will call for additional funding from its members and such funding calls might affect our profitability.

Maritime claimants could arrest our vessels, which could interrupt our cash flow

Crew members, suppliers of goods and services to a vessel, shippers of cargo and other parties may be entitled to a maritime lien against that vessel (and, in some jurisdictions, any vessel owned or controlled by the same owner) for unsatisfied debts, claims or damages. In many jurisdictions a maritime lienholder may enforce its lien by arresting a vessel and commencing foreclosure proceedings. The arrest or attachment of one or more of our vessels could require us to pay a substantial sum of money to have the arrest lifted and could adversely affect our business, financial position and results of operations.

Governments could requisition one or more of our vessels during a period of war or emergency, resulting in loss of earnings

A government could requisition for title or seize our vessels. Requisition for title occurs when a government takes control of a vessel and becomes the owner. Also, a government could requisition one or more of our vessels for hire. Requisition for hire occurs when a government takes control of a vessel and effectively becomes the charterer at dictated charter rates. Generally, requisitions occur during a period of war or emergency. Government requisition of one or more of our vessels could adversely affect our business, financial position and results of operations.

We may not be able to make dividend payments in accordance with our current dividend policy

The amount and payment of any dividends declared will be subject to the Bye-laws, the Companies Act and the discretion of the Board and will be dependent upon our earnings, financial position, cash requirements and availability and other relevant factors as the Board may deem relevant. Consequently, there can be no assurance that we will be able to pay dividends in accordance with our current dividend policy which is set out in the section headed "Financial Information — Dividend Policy" in this prospectus.

Risks Relating to the Global Offering

An active trading market for our Shares may not develop and their trading price may fluctuate significantly

Prior to the Global Offering, no public market for our Shares existed. We have made an application to the Stock Exchange for the listing and trading of our Shares. However, a listing on the Stock Exchange does not ensure that there will be a liquid public market for our Shares after the Global Offering. If an active public market for our Shares does not develop after the Global Offering, the market price and liquidity of our Shares may be adversely affected.

Sales of substantial amounts of Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of the Shares

The Shares held by the Controlling Group are currently subject to certain lock-up restrictions which will expire in stages on the dates falling 6 and 12 months after the date on which trading in the Shares commences on the Stock Exchange. Except to the extent of the lock-up restrictions, we cannot provide any assurance that the Controlling Group will not dispose of any Shares it may own now or in the future. Sales of substantial amounts of Shares in the public market, or the perception that these sales may occur, could materially and adversely affect the prevailing market price of the Shares.

The Controlling Group may take actions that are not in public shareholders' best interests

Upon completion of the Global Offering, the Controlling Group will own an aggregate of approximately 60.9% of our Shares, or approximately 55.9% if the Over-allotment Option is exercised in full. Accordingly, even while complying fully with our Bye-laws and applicable laws and regulations, members of the Controlling Group together will still be able to exercise significant influence over our management and policies, including controlling the election of our Directors, determining the timing and amount of our dividends, amending our Bye-laws, determining issuances of new securities and approving mergers and acquisitions.

At times, the interests of the Controlling Group may not be entirely consistent with our interests or those of our other shareholders. It is possible that the members of the Controlling Group may take actions in relation to our business that are not entirely in the best interests of our Company or our other shareholders.

Because the Offer Price of our Shares is higher than our pro forma net tangible asset value per Share, purchasers of our Shares in the Global Offering will experience immediate and substantial dilution. Purchasers of our Shares may experience further dilution if we issue additional Shares in the future

The Offer Price of our Shares is higher than the pro forma net tangible asset value per Share. Therefore, purchasers of our Shares in the Global Offering will experience an immediate dilution in pro forma net tangible asset value of HK$1.03 per Share assuming an Offer Price of HK$2.55 (being the mid-point of the proposed Offer Price range of HK$2.20 and HK$2.90), and our existing shareholders will receive an increase in the net tangible asset value per Share of their Shares.

In order to expand our business, we may consider offering and issuing additional Shares or equity-linked securities in the future. Purchasers of our Shares may experience further dilution in the net tangible book value per Share of their Shares if we issue additional Shares or equity-linked securities in the future. We currently do not have any definitive plan for any offering of additional Shares or equity-linked securities, particularly in relation to the timing or size of such offering, and such offering may or may not happen.

Shareholders may face difficulties in protecting their interests because we are incorporated under Bermuda law, which may provide less protection to minority shareholders than the laws of Hong Kong

Our corporate affairs are governed by our Memorandum of Association and Bye-laws and by the Companies Act and common law of Bermuda. The laws of Bermuda relating to the protection of the interests of minority shareholders differ in some respects from those established under statutes or judicial precedent in existence in Hong Kong. Such differences may mean that our minority shareholders may have less protection than they would have under the laws of Hong Kong. A summary of the laws of Bermuda relating to, among other things, protection of minority shareholders is set out in Appendix V.

Significant assumptions were made in the preparation of our unaudited pro forma combined financial information. Different assumptions may produce materially different results

Our Company was incorporated in Bermuda under the Bermuda Companies Act as an exempted company with limited liability on 10 March 2004, in order to act as the holding company for the Initial Companies, the Management Companies and each of the Vessel Companies. However, our unaudited pro forma combined profit and loss information has been compiled for the year ended 31 December 2003, as though the Company was in existence and the Reorganisation had been completed as at 1 January 2003 and for our pro forma combined balance sheet information as at 31 December 2003 as though the Company was in existence and the Reorganisation had been completed as at 31 December 2003.

The unaudited pro forma combined financial information as set out in Appendix IIA to this prospectus is provided to illustrate the combined financial results of the Group upon Reorganisation as if the Reorganisation took place as per the above dates. However it does not necessarily represent what the actual combined financial results or state of affairs would have been if the transactions had in fact occurred on those dates and is not necessarily representative of the financial results or position for any future periods or at any future date. The unaudited pro forma combined financial information should be read in conjunction with the Accountants' Reports prepared in respect of the companies involved, as set out in Appendix I to this prospectus.

As a result of the above, an analysis of our unaudited pro forma combined financial statements and the audited financial statements of Pacific Basin Shipping Limited (the holding company of the Initial Companies) in Appendix IA and PB Management Holding Limited (the holding company for the Management Companies) in Appendix IB and each of the Vessel Companies in Appendix IC may not be meaningful, their respective past results of operations may not reflect our future prospects, and direct comparisons of operating results between them and our Company should not be relied on as an indication of future performance.