GENERAL

The audited historical financial information of the companies that comprise the Group has been presented in the following appendices:

— Appendix IA — Accountants' Report on Pacific Basin Shipping Limited (Initial Companies)

— Appendix IB — Accountants' Report on PB Management Holding Limited (Management Companies)

— Appendix IC — Accountants' Reports on each of the Vessel Companies

In connection with the initial listing of the shares of Pacific Basin Shipping Limited on the Main Board of the Stock Exchange of Hong Kong Limited, a group reorganisation, as detailed under the section headed "Statutory and General Information — Corporate Reorganisation" in Appendix VI, was carried out. The four key steps of the reorganisation relevant to the presentation of financial information are:

(a) the transfer of the Initial Companies to the Company through an exchange of shares plus cash consideration with the Initial Investors;

(b) the transfer of the Management Companies under Pembroke to PB Management Holding Limited through an exchange of shares with Pembroke;

(c) the acquisition by the Company of PB Management Holding Limited through the issue of shares and cash consideration; and

(d) the acquisition by the Company of the Vessel Companies through the issue of shares and cash consideration.

Steps (a) and (b) above involved no change in control and/or ownership before and after the transactions, which satisfy the strict requirements for merger accounting under SSAP 27. Accordingly, the financial information in respect of the Company and the Initial Companies, and that of PB Management Holding Limited and the Management Companies, have been presented on a combined basis in Appendices IA and IB respectively.

Steps (c) and (d) above do not meet the strict criteria for merger accounting under SSAP 27. Accordingly, separate accountants' reports are presented. The effect of the combination of the above entities has been presented in the form of unaudited pro forma combined financial information in accordance with Listing Rules 4.29, as set out in Appendix IIA.

The following discussion and analysis should be read in conjunction with the pro forma combined financial information set out in Appendix IIA and with the financial statements and related notes thereto for each of Pacific Basin Shipping Limited (the holding company of the Initial Companies), PB Management Holding Limited (the holding company for the Management Companies) and each of the Vessel Companies, comprising Beckley Enterprises Limited, Eastern Venture Corporation, Foreview Holdings Limited, Investors Choice Limited, Keswick Holdings Limited, New Majestic International Limited and Riley Shipping (BVI) Limited, set out in Appendices IA, IB and IC in this prospectus.

The following summarises the relationship of the above three groups of companies.

Prior to the Reorganisation, the Management Companies used to be subsidiaries of Pembroke which was engaged in the ship-owning, ship-operating and ship management business. The Management Companies were directly involved in the provision of ship-operating and ship management services to ship owners under commercial and technical management contracts, including the Initial Companies and the Vessel Companies.

The Initial Investors had direct ownership of the Initial Companies which will be owned by the Company. The Vessel Companies were owned by separate groups of investors who are typically investors in more than one Vessel Company, and were majority owned by Pembroke and certain of its shareholders.

All of the Initial Companies and the Vessel Companies were established by Pembroke to own vessels for and on behalf of their respective investors. Each of these companies and the vessel owned by it has been managed by Pembroke since inception, pursuant to long-term management contracts. Each vessel is owned by one special purpose company and, through the board composition and the management contracts, Pembroke is able to control the operation of the vessels.

Except as otherwise indicated, all financial information set forth herein has been presented in US dollars in conformity with HK GAAP. All financial information as at and for the years ended 31 December 2001, 2002 and 2003 set out in Appendices IA, IB and IC has been audited. Further information regarding certain considerations with respect to the financial statements for the Company is set forth in the section headed "Risk Factors — Significant assumptions were made in the preparation of our unaudited pro forma combined financial information." References below to "2001," "2002," and "2003," unless otherwise noted, are references to the years ended and as at 31 December 2001, 2002 and 2003.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF RESULTS OF OPERATIONS AND FINANCIAL POSITION

Company Overview

We are one of the world's leading dry bulk shipping companies, operating principally in the Asia Pacific region. We provide marine transportation services and logistical support to our customers through the commercial operation of a large, modern and uniformly-sized fleet of shallow-draft Handysize dry bulk carriers. We specialise in transporting minor bulk commodities, such as forest products, iron and steel products, fertiliser, agricultural products and other commodities. Our turnover is primarily derived from the employment of vessels in the Owned and Chartered Fleet. All but two of these vessels are operated through the IHC Pool which charters out each vessel on a voyage or short-period Time Charter basis. The other two vessels are chartered out for longer periods. Under Time Charter we get paid for an agreed period of time on a per day basis and are responsible for paying the operating costs while the charterer is responsible for operating the vessels, paying the voyage costs and bearing the risk associated with its operation. Under Voyage Charter we are paid freight on the basis of moving cargo from a load port to a discharge port and are responsible for operating the vessels and paying both operating costs and voyage costs. In the year ended 31 December 2003, total pro forma combined turnover was US$80.7 million, of which approximately 82.4% was generated through these activities.

We also derive turnover by way of fees and commissions from the provision of commercial and technical management services for third party vessels, utilising the infrastructure that we have built to support our Owned and Chartered Fleet. In performing the commercial management service for the Managed Fleet we manage the day to day operations of the vessel and arrangement of the charter. All but one vessel in the Managed Fleet are operated through the IHC Pool, the other not being suitable for IHC Pool membership. In performing the technical management services we provide services including the hiring and supervision of crew, the technical survey of vessels, and the supervision of constructions and dry docking of vessels. Additionally, we provide marine consultancy services and supply certain marine consumables. For the year ended 31 December 2003, approximately 17.6% of our pro forma combined turnover was generated through these activities.

Dry Bulk Shipping Industry Overview

Dry bulk cargoes are used in many industries such as manufacturing and construction. The growth of the dry bulk cargo sector is linked to the macro global economic growth. The performance of the dry bulk shipping industry is linked to the demand for the shipment of dry bulk commodities and the supply of vessels. We believe the current demand supply scenario for the Handysize segment to be favourable and that the demand from China for dry bulk commodities will remain strong. If other major economies such as the US, Japan and Western Europe return to more traditional rates of growth, there could be a further boost to the demand for dry bulk commodities. The supply of vessels in the PB Handysize segment has been reducing since 1996. We believe that there is currently limited capacity to build new vessels in the PB Handysize Segment and that the delivery of the new tonnage entering the world fleet is unlikely to be sufficient to replace the older vessels that will be removed from the world fleet in the next few years.

Recent Financial Performance

Pro forma combined operating and net profit were US$29.4 million and US$24.5 million, respectively, in the year ended 31 December 2003. Our financial performance in 2003 reflected a significant increase in the number of vessels in operation during the year, as well as substantial improvements in charter rates for Handysize vessels and the dry bulk shipping market in general.

Our Initial Companies, our Management Companies and our Vessel Companies comprise our pro forma combined results for 2003. The results for the years ended 31 December 2003, 2002 and 2001 of the Initial Companies, the Management Companies and our Vessel Companies are as follows:

(a) The Initial Companies

In the years ended 31 December 2003, 2002 and 2001 the audited combined turnover was US$54.2 million, US$27.9 million and US$18.3 million, respectively, the audited combined operating profit was US$27.5 million, US$9.5 million and US$8.0 million, respectively, and the audited combined net profit/(loss) was US$22.7 million, US$(2.0) million and US$3.3 million, respectively.

(b) The Management Companies

In the years ended 31 December 2003, 2002 and 2001, the audited combined turnover was US$31.0 million, US$18.1 million and US$15.0 million, respectively, the audited combined operating profit was US$6.5 million, US$4.5 million and US$3.6 million, respectively, and the audited combined net profit was US$4.4 million, US$2.9 million and US$3.0 million, respectively.

(c) Vessel Companies

In the year ended 31 December 2003, in respect of the Beckley Group, Eastern Venture Corporation, Foreview Holdings Limited and the Keswick Group, their audited turnover was US$0.2 million, nil, US$2.8 million and US$1.4 million respectively; their audited operating profit was US$0.1 million, US$0.6 million, US$1.1 million and US$0.5 million respectively and their audited net profit was US$0.1 million, US$0.6 million, US$0.9 million and US$0.4 million respectively. There were no activities in the Vessel Companies in the years ended 31 December 2002 and 2001, except for Eastern Venture Corporation whose audited operating loss and net loss were US$0.02 million in both years.

Historically, the dry bulk shipping industry has been cyclical, experiencing volatility in charter rates, profitability and asset values due to changes in the demand for and supply of vessel capacity.

Factors Affecting Our Results of Operations

Revenues

We earn our revenues primarily from the employment of our Owned Fleet and Chartered Fleet on voyage charters, short-term time charters and COAs. Our revenues are largely dependent upon the charter rates that we earn, which are sensitive to the demand for and supply of vessels in the PB Handysize Segment, and the number of vessels we have in operation in the Owned Fleet and Chartered Fleet. The demand for ships is primarily driven by global and regional economic growth, developments in international trade, changes in seaborne and other transportation patterns, weather patterns, crop successes and failures, and other factors, including natural disasters. The supply of vessels is a function of the delivery of new vessels and the number of older vessels scrapped, in lay-up, converted to other uses, or lost. Such supply may also be affected by the regulation of maritime transportation practices by governmental and international authorities.

Substantially all of the vessels in our Fleet are operated through the IHC Pool. Revenues from each vessel are pooled and, after deduction of voyage expenses, the resulting net Time Charter equivalent revenues are distributed to the relevant owner. Distributions are based on a pro rata entitlement for each vessel, which reflects its size, age, speed, consumption and other specific characteristics relative to all other vessels in the pool. We believe the IHC Pool enables us to increase the revenues of our Owned Fleet and Chartered Fleet by enabling us to provide a more comprehensive service to our customers, to increase our market coverage and to reduce ballast days. We also generate revenues from fees that are paid to us by the owners of vessels of the Managed Fleet that are operated through the IHC Pool.

Our revenues from third party commercial and technical management services comprise fixed and variable elements. The fixed elements are management fees charged to ship owners on a monthly basis over the term of the management contracts. The variable elements are commissions earned from chartering and sale and purchase activities. These fees are sensitive to the number of vessels in our Managed Fleet and to the charter rates that these vessels can command.

Direct Costs

Vessel Operating Expenses

The principal costs of operating our Owned Fleet are:

- Crew costs and spending on lubricating oils, repairs, maintenance, spares and stores on board, which accounted for approximately one-half and one-quarter of total vessel operating expenses, respectively, in 2003.
- Other major vessel operating expenses include insurance and drydocking. During the first two years of a newly built vessel's operation, the average daily vessel operating expenses are usually lower because most repairs are under warranty.

Charter-hire Expenses

All of our Chartered Fleet are under Time Charter and direct costs for these vessels consist solely of the operating lease payments for the vessels, as the vessel operating expenses are borne by the owners. The aggregate amount of such costs depends, therefore, on the number of vessels chartered in and the rate applicable to each charter. The rate depends on the prevailing market for the period of the charter at the time it is fixed. We chartered in an average of five vessels during the course of 2003.

General and Administrative Expenses

General and administrative expenses consist of shore-based overheads, including staff costs, rent, power utilities and travel. The principal component of general and administrative expense is costs of staff employed in our commercial management, chartering, technical management and finance activities.

Finance Costs

A significant portion of the acquisition cost of a vessel is typically financed through bank borrowings, which generally bear floating interest rates. Our current policy is to borrow approximately 60% of the cost of our vessels, and we expect our future debt financing to be issued at floating rates or fixed rates depending on market conditions at the time. Our loans historically have borne interest rates of approximately 1.5% to 1.8% over 3-month LIBOR.

Vessel Acquisitions for the Owned Fleet

Newbuildings: In acquiring newly constructed vessels, we expend substantial sums in the form of down payments and progress payments during the construction process, but do not derive any revenue from these vessels until after their delivery.

Secondhand vessels: From time to time, we acquire secondhand vessels from the market, if we are able to find suitable existing vessels for sale at attractive prices.

Critical Accounting Policies

The preparation of financial statements in conformity with Hong Kong GAAP requires us to adopt accounting policies and make estimates and assumptions that affect amounts reported in our financial statements. In applying these accounting policies, we make subjective and complex judgements that frequently require estimates about matters that are inherently uncertain. Many of these policies, estimates and related judgements are common in the shipping industry; others are specific to our businesses and operations. The following sections discuss the accounting policies applied in preparing our financial statements that we believe are most dependent on the application of these judgements and estimates.

Net Revenue from IHC Pool

Our revenues are principally generated from shipping activities, which to a large extent are conducted through the IHC Pool.

The IHC Pool operates all but three of the vessels in the Fleet as a single fleet, placing all voyage results into a pool of earnings. Charter-hire income for each vessel under this pooling arrangement is calculated based on its share of the IHC Pool's combined voyage results and recognised on an accrual basis. The combined voyage results represent the combined voyage revenues less voyage expenses. The combined voyage results from operating the pool of vessels are shared amongst the members, with distributions to the members determined by the number of pool points and trading days associated with each vessel. The pool points for each vessel are based on a number of factors such as the vessel dead weight tonnage, cubic capacity, age, speed and fuel consumption.

Total voyage revenues are recognised upon delivery of service in accordance with the terms and conditions of the charter parties and are generated from each vessel participating in the IHC Pool and are based on either voyage or time charter parties. The IHC Pool measures net revenues based on the contractual rates and the duration of each voyage.

Voyage expenses, which comprise port expenses, commissions and bunker fuel consumption, are recognised upon delivery of services in accordance with the terms and conditions of the charter parties. Recognition of port expenses is based on reports of actual expenses incurred, which are received on a regular basis from agents and captains.

Revenues and expenses related to incomplete voyages

The revenues and the related expenses of individual voyages are recognised by the IHC Pool based on the stage of completion determined by reference to number of days performed to date as a percentage of total numbers of days to be performed in the voyage journey. For incomplete voyages (voyages in progress at the end of a reporting period) the IHC Pool measures revenues and expenses based on estimates.

When recognising net revenues for incomplete voyages, there is a risk that the actual number of days required to complete the voyage will differ from the original estimates as a result of weather conditions and deviation from the destination ports as allowed by the charter parties. In the case of adverse weather conditions resulting in an overrun of the voyage, it is the IHC Pool's responsibility to bear the loss of earnings for the over-run period, which will reduce the IHC Pool's combined voyage results. In the case of a deviation of the destination port, the charterer will compensate the owners for all additional costs in relation to the deviation, which will adversely affect the average daily earning rate.

Recognition of voyage expenses is based on our experience of the expected duration of the voyage, destination of the voyage, vessel statistics regarding bunker consumption, estimates of port expenses and other relevant factors. Changes to the scheduled voyage will affect the voyage expenses.

Changes in the basis of the estimates in relation to incomplete voyages may affect the IHC Pool's combined voyage results in future periods. These estimates discussed above are monitored and updated regularly. Historically, the application of the estimates of revenues and expenses in relation to incomplete voyages has not materially affected the IHC Pool's combined net voyage results and our share of the IHC Pool's result.

Drydocking costs

Vessels in our Owned Fleet are required to undergo planned drydockings for major repairs and maintenance which cannot be carried out while the vessels are operating. Drydockings last approximately 10 days and take place approximately every 30 months depending on the condition of the vessels, the nature of the repair work required to be carried out, the trading pattern of the vessels and other external requirements. All drydocking costs are charged as operating expenses at the completion of the drydocking.

Useful lives of vessels

All vessels in our Owned Fleet have an estimated useful life of 25 years from the date construction is completed. They are depreciated on a straight-line basis to their estimated scrap values over their estimated remaining useful lives. We consider that a 25-year depreciable life is consistent with that used by other ship owners with comparable tonnage in the maritime transportation industry.

The useful lives of the vessels in our Owned Fleet are assessed periodically based on the conditions of the vessels, the market condition and other regulatory requirements. If the estimates of useful lives for the vessels are revised or there is a change in the useful lives, the amount of depreciation expenses recorded in future periods will change. Historically, we have not experienced material changes to the depreciation expenses.

Carrying amounts of vessels

The carrying amount of our Fleet is stated at cost less accumulated depreciation. Vessels acquired through business combinations are carried at cost which is determined based on the valuation at date of acquisition. They are depreciated on a straight-line basis to their estimated scrap values over their estimated useful lives.

Scrap value is estimated as the lightweight tonnage of each vessel multiplied by the scrap value per tonne. If the estimates of the scrap value are revised, the amount of depreciation expenses recorded in future periods will change. Historically, we have not experienced material changes to the depreciation expenses.

We evaluate the carrying amounts and the period over which the vessels are depreciated to determine whether any events have occurred that would require a modification of their carrying amounts or useful lives. The valuation of vessels is reviewed on a regular basis, based on events and changes in circumstances that would indicate that a portion of the carrying amounts of the vessels might not be recovered. In assessing the recoverability of the vessels, we review certain indicators of potential impairment, such as reported sale and purchase prices and general market conditions.

The carrying cost of the vessels of our Fleet may not represent their fair market value at any point in time since market prices of second hand vessels to a degree tend to fluctuate with changes in charter rates and the costs of new buildings.

If the estimated future cash flow or related assumptions in the future causes us to believe that they are of a long term nature, an impairment of vessels currently recorded might be required.

Goodwill

Goodwill of the Group arises from the acquisition of certain subsidiaries and represents the excess of the cost of the acquisition over the fair value of our share of the net assets of the acquired entities on the date of acquisition. Goodwill on acquisition is included in intangible assets and amortised using the straight-line method. It is of our opinion that the goodwill has a useful life of 15 years.

The useful life of goodwill is being assessed periodically. If any indication of impairment exists, the carrying amount of goodwill is written down immediately to its recoverable amount and the impairment loss is charged to the profit and loss account.

Pro Forma Combined Results of Operations

We set forth below certain information and discussion on the pro forma combined profit and loss account for the year ended 31 December 2003, prepared as if the Reorganisation had occurred on 1 January 2003, and the pro forma combined balance sheet as at 31 December 2003, prepared as if the Reorganisation had occurred on that date.

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 the 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 position or results for any future periods or at any future date. For an explanation of the pro forma adjustments set forth below, see the section headed ''Unaudited Pro Forma Combined Financial Information'' in Appendix IIA.

Pro Forma Combined Profit and Loss Accounts Data

	Pacific Basin Shipping Limited	PB Management Holding Limited	Beckley Enterprises Limited	Eastern Venture Corporation	Foreview Holdings Limited	Investors Choice Limited	Keswick Holdings Limited	New Majestic International Limited	Riley Shipping (BVI) Limited	Aggregate 2003	Pro Forma Adjustment	Pro Forma 2003
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Turnover	54,188	30,983	207	—	2,805	—	1,381	—	—	89,564	(8,896)	80,668
Other revenues	2	426	2	635	—	—	1	—	—	1,066	(635)	431
Direct costs												
— Charter-hire expenses on vessels	(5,235)	(6,340)	—	—	—	—	—	—	—	(11,575)	—	(11,575)
— Depreciation and amortisation	(7,890)	—	(27)	—	(450)	—	(202)	—	—	(8,569)	(2,081)	(10,650)
— Vessel operating expenses	(13,089)	—	(40)	—	(1,116)	—	(618)	—	—	(14,863)	1,642	(13,221)
— Cost of inventories sold and distribution costs	—	(2,032)	—	—	—	—	—	—	—	(2,032)	—	(2,032)
— Total direct costs	(26,214)	(8,372)	(67)	—	(1,566)	—	(820)	—	—	(37,039)	(439)	(37,478)
General and administrative expenses	(469)	(17,612)	(12)	(10)	(112)	—	(66)	—	—	(18,281)	3,073	(15,208)
Other operating income	—	1,028	—	—	—	—	—	—	—	1,028	—	1,028
Operating profit	27,507	6,453	130	625	1,127	—	496	—	—	36,338	(6,897)	29,441
Finance costs	(4,821)	—	(13)	—	(192)	—	(92)	—	—	(5,118)	—	(5,118)
Operating profit after finance costs	22,686	6,453	117	625	935	—	404	—	—	31,220	(6,897)	24,323
Share of profits less losses in jointly controlled entities	—	(306)	—	—	—	—	—	—	—	(306)	1,177	871
Profit before taxation	22,686	6,147	117	625	935	—	404	—	—	30,914	(5,720)	25,194
Taxation	—	(918)	—	—	—	—	—	—	—	(918)	260	(658)
Profit after taxation	22,686	5,229	117	625	935	—	404	—	—	29,996	(5,460)	24,536
Minority interests	—	(847)	—	—	—	—	—	—	—	(847)	847	—
Profit attributable to shareholders	22,686	4,382	117	625	935	—	404	—	—	29,149	(4,613)	24,536

Pro Forma Combined Balance Sheet Data

	Pacific Basin Shipping Limited	PB Management Holding Limited	Beckley Enterprises Limited	Eastern Venture Corporation	Foreview Holdings Limited	Investors Choice Limited	Keswick Holdings Limited	New Majestic International Limited	Riley Shipping (BVI) Limited	Aggregate 2003	Pro Forma Adjustment	Pro Forma 2003
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
Current assets												
Bank balances and cash	5,744	11,515	232	—	1,027	11	782	—	5	19,316	1	19,317
Trade, other receivables and prepayments	368	10,248	6	41	3	—	22	—	285	10,973	(76)	10,897
Inventories	528	3,471	46	—	38	—	50	—	—	4,133	—	4,133
Other current assets	2,252	6,865	112	—	112	351	2	2,128	570	12,392	(5,230)	7,162
Total current assets	8,892	32,099	396	41	1,180	362	856	2,128	860	46,814	(5,305)	41,509
Fixed assets	200,777	656	10,737	—	9,664	7,467	7,866	772	3,728	241,667	34,775	276,442
Goodwill	—	—	—	—	—	—	—	—	—	—	25,794	25,794
Interests in jointly controlled entities and an associated company	—	652	—	2,900	—	—	—	—	—	3,552	3,617	7,169
Other long-term assets	3,033	2,016	139	—	199	—	208	—	—	5,595	(1,700)	3,895
Total assets	212,702	35,423	11,272	2,941	11,043	7,829	8,930	2,900	4,588	297,628	57,181	354,809
Current liabilities												
Current portion of long-term bank loans	10,869	—	800	—	825	—	1,000	—	—	13,494	—	13,494
Trade, other payables and accruals	3,656	21,686	150	—	202	—	326	—	—	26,020	(9)	26,011
Taxation payable	—	1,611	—	—	—	—	—	—	—	1,611	(14)	1,597
Other current liabilities	69	4,604	5	41	56	129	75	—	188	5,167	34,253	39,420
Total current liabilities	14,594	27,901	955	41	1,083	129	1,401	—	188	46,292	34,230	80,522
Long-term bank loans	134,994	—	7,200	—	6,525	2,400	5,125	—	—	156,244	—	156,244
Other long-term liabilities	31,259	19	—	—	—	—	—	—	—	31,278	(31,259)	19
Minority interests	—	1,734	—	—	—	—	—	—	—	1,734	(1,734)	—
Total liabilities and minority interest	180,847	29,654	8,155	41	7,608	2,529	6,526	—	188	235,548	1,237	236,785
Shareholders' funds	31,855	5,769	3,117	2,900	3,435	5,300	2,404	2,900	4,400	62,080	55,944	118,024
Total liabilities, equity and minority interest	212,702	35,423	11,272	2,941	11,043	7,829	8,930	2,900	4,588	297,628	57,181	354,809

Unaudited Pro Forma Combined Cash Flow Statement Data

	Pacific Basin Shipping Limited	PB Management Holding Limited	Beckley Enterprises Limited	Eastern Venture Corporation	Foreview Holdings Limited	Investors Choice Limited	Keswick Holdings Limited	New Majestic International Limited	Riley Shipping (BVI) Limited	Aggregate 2003	Pro Forma Adjustments (Adj #9)	Pro Forma 2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Net cash generated from/(used in) operating activities	35,777	5,681	146	—	1,682	(222)	1,024	—	823	44,911	(3,657)	41,254
Cash flows from investing activities												
Purchase of fixed assets	(27,138)	(397)	(10,764)	—	(10,114)	(7,467)	(8,068)	—	(3,018)	(66,966)	—	(66,966)
Sale of fixed assets	—	12	—	—	—	—	—	—	—	12	—	12
Interest received	2	139	2	—	—	—	1	—	—	144	—	144
Increase in interests in jointly controlled entities	—	(900)	—	—	—	—	—	—	—	(900)	—	(900)
Increase in interests in an associated company	—	(58)	—	—	—	—	—	—	—	(58)	—	(58)
Increase in restricted bank deposits	(200)	—	(100)	—	(150)	—	(150)	—	—	(600)	—	(600)
Net cash used in investing activities	(27,336)	(1,204)	(10,862)	—	(10,264)	(7,467)	(8,217)	—	(3,018)	(68,368)	—	(68,368)
Cash flows from financing activities												
Repayment of bank loans	(10,769)	—	—	—	(450)	—	(250)	—	—	(11,469)	—	(11,469)
Drawdown of bank loans	19,900	—	8,000	—	7,800	2,400	6,375	—	—	44,475	—	44,475
Additional loans from shareholders	911	—	—	—	—	—	—	—	—	911	—	911
Issue of shares	1	—	3,000	—	2,500	5,300	2,000	—	2,200	15,001	—	15,001
Interest paid	(4,824)	—	(12)	—	(186)	—	(87)	—	—	(5,109)	—	(5,109)
Dividends paid	(13,900)	(2,015)	—	—	—	—	—	—	—	(15,915)	—	(15,915)
Payment of loan arrangement fees	(148)	—	(40)	—	(55)	—	(63)	—	—	(306)	—	(306)
Net cash (used in)/generated from financing activities	(8,829)	(2,015)	10,948	—	9,609	7,700	7,975	—	2,200	27,588	—	27,588
Net increase/(decrease) in cash and cash equivalents	(388)	2,462	232	—	1,027	11	782	—	5	4,131	(3,657)	474
Cash and cash equivalents at 1 January	6,132	5,649	—	—	—	—	—	—	—	11,781	—	11,781
Cash and cash equivalents at 31 December	5,744	8,111	232	—	1,027	11	782	—	5	15,912	(3,657)	12,255

Year ended 31 December 2003

Turnover

Total turnover was US$80.7 million in 2003.

Revenues from Charter-hire. Revenues from the employment of vessels in the Owned and Chartered Fleets represented 82.4% of total turnover or US$66.5 million in 2003. Of this amount, US$51.4 million was generated from the operation of the Owned Fleet, representing 77.3% of revenue from charter-hire with the balance of US$15.1 million from the Chartered Fleet. The average number of vessels in 2003 in the Owned Fleet was approximately 14 and in the Chartered Fleet was approximately five. The average daily revenue earned by each vessel was approximately US$9,700 in 2003.

Management Fee and Other Income. Revenues from management fees represented 17.6% of total turnover or US$14.2 million in 2003 comprising revenue from commercial, technical management and marine services.

Other Revenues

Other revenues were US$0.4 million in 2003. This was primarily made up of income from shipping related investments and interest income.

Expenses

Direct Costs. Direct costs in 2003 amounted to US$37.5 million, principally comprising US$11.6 million for charter-hire payments in respect of the Chartered Fleet, US$13.2 million for vessel operating expenses in respect of Owned Fleet, US$10.7 million for depreciation of the Owned Fleet (including depreciation arising from the fair value adjustments upon the acquisition of the Vessel Companies) and US$2.0 million for cost of inventories sold and related distribution costs. Average daily vessel operating expense was approximately US$2,500, which included drydockings.

General and Administrative Expenses. General and administrative expenses were US$15.2 million in 2003. This was primarily made up of staff costs of US$11.8 million representing 77.6% of the total. In 2003, the average number of employees was approximately 164. Other material categories included legal and professional fees of US$0.5 million, travel and marketing expenses of US$0.5 million, reflecting an expansion of the Group's business and increased marketing effort in relation to the promotion of the IHC Pool, consultancy fees of US$0.2 million, which were payments to subcontractors who provided us with services in connection with our marine consultancy business, the Group's office rental cost of US$0.5 million, vessels related administrative expenses of US$0.5 million, and other costs of US$1.2 million.

Finance Costs. Finance costs, predominantly interest payments on bank borrowings used to finance the Owned Fleet, were US$5.1 million in 2003. Total bank borrowings as at 31 December 2003 were US$169.7 million, of which US$44.5 million was new debt financing used to finance the acquisition of five additional vessels and one vessel under construction in 2003. These bank loans carried interest rates which ranged from approximately 2.5% to 3.9% in 2003. The bank loans are secured by mortgages over the vessels in our Owned Fleet.

Liquidity and Sources of Capital

We operate in a capital-intensive industry requiring extensive investment in revenue-producing assets. Our primary short-term liquidity needs are to fund general working capital requirements and drydocking expenditures while our long-term liquidity needs are primarily associated with expansion of our Owned Fleet and other capital expenditures.

We have historically relied principally on cash generated from operations to fund working capital and capital requirements relating to the operations while relying on equity contributions from investors, cash generated from operations and bank borrowings to finance the acquisition and replacement of vessels. The acquisition price for a newbuilding is usually paid in instalments, commencing nine to 18 months in advance of delivery, for 10% to 40% of the contract price with the balance on delivery. The acquisition price for a secondhand vessel is usually paid in two portions, 10% on signing a purchase agreement, by way of refundable deposit, and the balance upon delivery. Pre-delivery instalments and purchase deposits are typically financed from internal resources, and the major part of delivery payments are financed from new bank borrowings. Our current policy is to borrow approximately 60% of the acquisition price of our vessels, although this amount will vary on a case by case basis. Borrowings typically have a tenor of eight to 12 years and are repaid on a straight line basis down to a balloon of 20% to 35%. We have historically used cash from operations for debt service payments.

As at 31 December 2003, our primary source of liquidity was US$19.3 million of bank balances and cash. As at 31 December 2003, we had negative working capital of US$39.0 million. This includes an aggregate amount of US$35.3 million payable to the Initial Investors and to the shareholders of the Vessel Companies representing the cash portion of the consideration payable as part of the Reorganisation and an aggregate amount of US$4.1 million to the respective shareholders as dividends for period till 31 December 2003. The repayment of this will be funded by existing cash and additional borrowings secured on the vessels. The cash consideration due to shareholders of each of the Initial Companies and Vessel Companies represents the difference between the actual debt outstanding as of 31 March 2004 and 60% of the appraised fair market value of the vessels. Shares in the Company were allotted based on the adjusted debt equal to 60% of fair market value. We have obtained commitments from banks for two new loan facilities, totalling approximately US$310 million, which will be available upon listing. The drawdown of bank loans in the Reorganisation is to achieve a position where all the Group's vessels are financed at a consistent target debt level of approximately 60% of the fair market value of vessels, to pay the cash consideration to the Initial Investors and Vessel Company Investors and to secure a lower interest rate margin on our borrowings. The Initial Investors originally funded some of the Initial Companies by way of long-term shareholders' loans rather than by way of equity. The capitalisation of these shareholders' loans reflects the long-term nature of the funding and is necessary to provide each of the Initial Companies with a consistent capital structure (namely 60% debt and 40% equity) as outlined above. The payment of the dividends by the Vessel Companies and the Management Companies distributes to their shareholders the retained earnings attributable to them up to the date of the Reorganisation and in the case of the Vessel Companies is again necessary to create a uniform capital structure funded from long-term bank loans (60%) and share capital (40%). These amounts shall be paid shortly after the Listing Date. We expect that our current financial resources combined with net cash to be generated from operating activities will be sufficient to meet our financial requirements over the next 12 months.

Our bank loans contain various financial and other covenants. We are not allowed, without the bank's written consent, to (i) sell, transfer, abandon or dispose of a mortgaged vessel or any share or interest in it; (ii) let the mortgaged vessel on demise charter or any time or consecutive voyage charter for a term exceeding 12 months' duration; (iii) enter into any agreement or arrangement whereby the mortgaged vessel's earnings may be shared with any other person; (iv) appoint another manager of the mortgaged vessel; or (v) permit any new mortgage or liens on the mortgaged vessel. We were in compliance with all of the covenants contained in our bank loan agreements as at 31 December 2003.

Capital Expenditures

In 2003, capital expenditures for vessel additions totalled US$66.6 million. We finance vessel additions primarily with cash provided by investors, operating activities and long-term bank loans. As at 31 December 2003, we had non-cancellable commitments for the construction of four Handysize and two Handymax vessels for delivery between March 2004 and January 2005, with an aggregate unpaid cost of approximately US$83.2 million. Unpaid costs are net of progress payments and prepayments. We expect to finance our commitments from cash generated from operations of approximately US$5.7 million and long-term debt financing of approximately US$77.5 million.

Historical Results of Operations — Initial Companies

The Initial Investors had direct ownership of the Initial Companies. All of these companies were established by Pembroke to own vessels for and on behalf of the Initial Investors. The companies and the vessels owned by them have been managed by Pembroke since inception pursuant to long-term management contracts, with Pembroke controlling the operations of the vessels.

We set forth below extracts from the Accountants' Report on Pacific Basin Shipping Limited, the holding company for the Initial Companies, set out in Appendix IA.

	2001	2002	2003
	US$'000	US$'000	US$'000
Profit and Loss Account			
Turnover			
Charter-hire income from			
— vessels under the pooling arrangement	2,687	26,791	52,475
— others	15,570	1,133	1,713
Total turnover	18,257	27,924	54,188
Other revenues	75	37	2
Direct costs			
Charter-hire expenses on vessels	—	(423)	(5,235)
Crew expenses	(2,776)	(5,012)	(5,560)
Depreciation	(4,278)	(7,502)	(7,890)
Spare parts and lubricating oil	(1,070)	(2,004)	(2,823)
Others	(1,898)	(3,456)	(4,706)
Total direct costs	(10,022)	(18,397)	(26,214)
General and administrative expenses	(348)	(554)	(469)
Other operating income	61	484	—
Operating profit	8,023	9,494	27,507
Finance costs	(4,767)	(11,521)	(4,821)
Profit/(loss) attributable to shareholders	3,256	(2,027)	22,686
Dividends	—	—	13,900
Balance Sheet			
Current assets			
Bank balances and cash	1,501	6,132	5,744
Trade, other receivables and prepayments	1,755	198	368
Inventories, at cost	286	459	528
Amounts due from related companies	719	1,447	2,252
Sub-total	4,261	8,236	8,892
Fixed assets	142,012	181,529	200,777
Deferred loan arrangement fees	369	550	633
Restricted bank deposits	1,600	2,200	2,400
Total assets	148,242	192,515	212,702
Current liabilities			
Short-term bank loans (including current portion of long-term)	6,833	9,469	10,869
Accruals and other payables	4,018	2,301	3,656
Amounts due to related companies	—	66	69
Sub-total	10,851	11,836	14,594
Long-term bank loans (excluding current portion)	89,691	127,263	134,994
Loans from shareholders	22,606	30,348	31,259
Total liabilities	123,148	169,447	180,847
Shareholders' funds	25,094	23,068	31,855
Total liabilities and equity	148,242	192,515	212,702

	2001	2002	2003
	US$'000	US$'000	US$'000
Other			
Capital expenditures	83,228	54,003	27,138
Depreciation and amortisation	4,302	7,579	7,955
Net cash flow from operating activities	23,260	16,582	35,777
Net cash used in investing activities	(84,053)	(47,255)	(27,336)
Net cash flow from/(used in) financing activities	61,693	35,304	(8,829)

Year Ended 31 December 2003 Compared to Year Ended 31 December 2002

Turnover

Revenues from Charter-hire. Revenues from charter-hire of Owned Fleet and Chartered Fleet through the IHC Pool is categorised as ''charter-hire income from vessels under the pooling arrangement'' and revenues from chartering the vessels directly to charterers instead of through the IHC Pool is categorised as ''income from others''. Revenues from charter-hire increased by 94.3% to US$54.2 million in 2003 from US$27.9 million in 2002. The increase in revenues from charter-hire was primarily due to an increase in the average daily rate at which vessels in our owned and chartered-in fleets were hired out and an increase in the number of such vessels hired out directly and through a jointly controlled operation. The average daily rate at which the vessels were hired out increased to approximately US$9,800 in 2003 from approximately US$6,100 in 2002. This increase was in line with the general increase in market rates. The average number of owned and chartered-in vessels hired out increased from approximately 13 in 2002 to approximately 15 in 2003 following the acquisition of two vessels in 2003. The average number of vessels hired out from the jointly controlled operation which chartered-in vessels was approximately one in 2003 compared with nil in 2002. In 2003, the Initial Companies and the Management Companies entered into a jointly controlled operation arrangement. Under the contractual arrangement, the Management Companies chartered in vessels for the purpose of sub-chartering them out. Charter-hire income and expenses from sub-contracting of the vessels are shared equally among each party. Approximately half of the chartered-in vessels were not chartered out through the IHC Pool and the income derived from this is categorised as ''income from others''.

Other Operating Income

Other operating income in 2002 was primarily represented by gain on disposal of vessels. The decrease in other operating income in 2003 was primarily because two vessels were disposed in 2002 compared with nil in 2003.

Expenses

Direct Costs. The direct costs increased by 42.4% to US$26.2 million in 2003 from US$18.4 million in 2002. The increase in direct costs was primarily due to an increase in the charter-hire expenses to US$5.2 million in 2003 from US$0.4 million in 2002, increase in average daily vessel operating expenses to approximately US$2,800 in 2003 from approximately US$2,300 in 2002 and to a lesser extent, an increase in the average number of owned vessels. The increase in the charter-hire expenses was due to the increase in weighted average number of chartered vessels to approximately two in 2003 from approximately 0.2 in 2002 (the vessel was chartered out for part of the year). Average daily vessel operating expenses increased primarily because vessel operating expenses are usually lower in the first two years of operations of a newly-built vessel as most of the repairs are under warranty. Most of the Owned Fleet relating to the Initial Companies consist of newly-built vessels delivered in 2001 and 2002. In 2003, out of an average number of owned vessels of approximately 13, five vessels were one to two years old while in 2002, out of an average number of vessels of approximately 12, nine vessels were one to two years old. Depreciation expenses increased by 5.3% to US$7.9 million in 2003 from US$7.5 million in 2002. The increase in depreciation expenses was primarily due to an increase in the average number of vessels.

Finance Costs. Finance costs decreased by 58.3% to US$4.8 million in 2003 from US$11.5 million in 2002. The decrease in finance costs was primarily due to one-off foreign exchange losses of US$6.2 million incurred in 2002. Pursuant to the loan agreements entered into between the Initial Companies and the bank, the Initial Companies had the discretion to convert their bank borrowings denominated in United States dollars into Japanese yen and vice versa during the loan period. During 2002, certain of its bank borrowings were converted into Japanese yen and subsequently back to United States dollars at the Company's discretion and a loss of US$6.2 million was realised from such conversion which was charged to the profit and loss account.

Profit

Profit for the year increased to US$22.7 million in 2003 from a loss of US$2.0 million in 2002. The increase in profit for the year was primarily due to the increase in the size of the Owned Fleet and Chartered Fleet, an increase in the average daily rate at which such vessels were hired out at during 2003, and the foreign exchange losses incurred in 2002.

Year Ended 31 December 2002 Compared to Year Ended 31 December 2001

Turnover

Revenues from Charter-hire. Revenues from charter-hire increased by 52.5% to US$27.9 million in 2002 from US$18.3 million in 2001. The increase in revenues was primarily due to an increase in the average number of owned and chartered-in vessels from approximately seven in 2001 to approximately 13 in 2002, which was partially offset by a decrease in the average daily rate at which such vessels were hired out. The average daily rate at which such vessels were hired out decreased to approximately US$6,100 in 2002 from approximately US$6,900 in 2001. "Charter-hire income from vessels under the pooling arrangement" increased to US$26.8 million in 2002 from US$2.7 million in 2001 while "charter-hire income from others" (vessels chartered out directly to charterers instead of through the IHC Pool) decreased to US$1.1 million in 2002 from US$15.6 million in 2001. The increase in charter-hire income from vessels under the pooling arrangement and the decrease in "charter-hire income from others" was due to more vessels joining the IHC Pool upon expiry of their charters during the course of 2002 following the inception of the IHC Pool in October 2001.

Other Revenues

Other revenues were wholly represented by interest income from banks for deposit placed with them. The decrease in other revenue in 2002 was primarily due to the decrease in bank deposit interest rates.

Other Operating Income

Other operating income in 2002 was primarily represented by gain on disposal of vessels. The increase in other operating income was primarily because two vessels were disposed in 2002 compared with nil in 2001.

Expenses

Direct Costs. Direct costs increased by 84.0% to US$18.4 million in 2002 from US$10.0 million in 2001. The increase in direct costs was primarily due to an increase in vessel operating expenses and the average number of vessels. Depreciation expenses increased by 74.4% to US$7.5 million in 2002 from US$4.3 million in 2001. The increase in depreciation expenses was primarily due to an increase in the average number of vessels. The increase in charter-hire expenses on vessels was because no vessels were chartered in 2001 while a weighted average of approximately 0.2 vessel was chartered in 2002.

Finance Costs. Finance costs increased by 139.6% to US$11.5 million in 2002 from US$4.8 million in 2001. The increase in finance costs was primarily due to one-off foreign exchange losses of US$6.2 million incurred in 2002.

Profit

Profit for the year decreased to a loss of US$2.0 million from a profit of US$3.3 million in 2001. The decrease in profit for the year was primarily because of the foreign exchange loss of US$6.2 million and lower freight rates in 2002, offset to a lesser extent by an increase in the average number of vessels.

Year Ended 31 December 2001

Turnover

Revenue from Charter-hire. Revenues from charter-hire of US$18.3 million were generated from an average of seven vessels under operation in 2001. These vessels were hired out at an average daily rate of approximately US$6,900.

Expenses

Direct Costs. Direct costs were US$10.0 million and average daily vessel operating expenses were approximately US$2,200. An average of seven vessels, including five new vessels delivered in 2001, incurred depreciation expenses of US$4.3 million.

Finance Costs. Finance costs were US$4.8 million.

Profit

Profit for the year was US$3.3 million. This was wholly contributed by the operation of the vessels relating to our Initial Companies, comprising an average of seven vessels.

Liquidity and Sources of Capital

Our Initial Companies operate in a capital-intensive industry requiring extensive investment in revenue-producing assets. Their primary short-term liquidity needs are to fund general working capital requirements and drydocking expenditures while their long-term liquidity needs are primarily associated with expansion of the owned fleet and other capital expenditure.

The Initial Companies have historically relied principally on cash generated from operations to fund working capital and capital requirements relating to the operations while relying on equity contributions from investors, cash generated from operations and bank borrowings to finance the acquisition and replacement of vessels. The acquisition price for a newbuilding is usually paid in instalments, commencing nine to 18 months in advance of delivery, for 10% to 40% of the contract price with the balance on delivery. The acquisition price for a secondhand vessel is usually paid in two portions, 10% on signing a purchase agreement, by way of refundable deposit, and the balance upon delivery. Pre-delivery instalments and purchase deposits are typically financed from internal resources, and the major part of delivery payments are financed from new bank borrowings. The Initial Companies' current policy is to borrow approximately 60% of the acquisition price of the vessels, although this amount will vary on a case by case basis. Borrowings typically have a tenor of eight to 12 years and are repaid on a straight line basis down to a balloon of 20% to 35%. Historically cash from operations was used for debt service payments.

Deferred loan arrangement fees represented bank loan arrangement fees charged by the financing bank less amortisation. They are capitalised and amortised over the loan period.

Trade, other receivables and prepayment decreased to US$0.2 million in 2002 from US$1.8 million in 2001. The decrease in trade, other receivables and prepayments was primarily because (a) receipt of an insurance claim of US$0.9 million, which was recognised as a receivable in 2001; (b) most of the vessels joined the IHC Pool in 2002 leading to the recognition of receivables such as charter-hire receivables, port advances and other receivables from the charterers in the accounts of the IHC Pool, instead of in the accounts of the Initial Companies.

Accruals and other payables increased to US$3.7 million in 2003 from US$2.3 million in 2002. The increase in accruals and other payables was primarily due to the increase in purchase of stores and spare parts in December 2003 and the additions of two new vessels in 2003. Accruals and other payables decreased to US$2.3 million in 2002 from US$4.0 million in 2001. The decrease was primarily due to (a) the decrease in accruals for bank loan interest due to the decrease in LIBOR in 2002; (b) several vessels joining the IHC Pool in 2002 leading to the recognition of payables such as charter-hire received in advance and port disbursement payables in the accounts of the IHC Pool manager which form part of the accounts of the Management Companies instead of in the accounts of the Initial Companies.

Operating cashflow. Net cash provided by operating activities was US$35.8 million, US$16.6 million and US$23.3 million in 2003, 2002 and 2001 respectively. The changes in the operating cash flows from year to year are generally in line with the changes in operating profits, except that there was an inflow of an insurance claim of US$12 million received in 2001 which increased the cash flow for that year. This insurance claim related to the constructive total loss of a vessel in December 2000.

Investing cashflow. Net cash used by investing activities was US$27.3 million in 2003, primarily as a result of purchases of fixed assets of US$27.1 million. Net cash used by investing activities was US$47.3 million in 2002, primarily as a result of purchases of fixed assets of US$54.0 million, offset by the sale of fixed assets of US$7.3 million. Net cash used by investing activities was US$84.1 million in 2001, primarily as a result of purchases of fixed assets of US$83.2 million. The decrease in cash used in purchases of fixed assets in 2003 was primarily due to a decrease in the number of vessels delivered. Two vessels were delivered in 2003, while four vessels were delivered in 2002. The decrease in cash used in purchases of fixed assets in 2002 was primarily due to the combined effect of the decrease in the number of vessels under construction and the number of vessels delivered. In 2002, two vessels were under construction and four vessels were delivered, while in 2001, four vessels were under construction and five vessels were delivered. One vessel was sold in 2002.

Financing cashflow. Net cash used by financing activities was US$8.8 million in 2003, primarily as a result of dividend payments of US$13.9 million. Net cash provided by financing activities was US$35.3 million in 2002, primarily as a result of a net increase in bank financing of US$34.0 million. Net cash provided by financing activities was US$61.7 million in 2001, primarily as a result of a net increase in bank financing of US$50.2 million and a shareholder loan of US$15.4 million. The repayment of bank loans in the past were based on specific schedules but there was an increase in bank loans repayment in 2002 primarily due to the sale of a vessel and the entire bank loan outstanding specific to the vessel was repaid. The decrease in cash from drawdown of bank loans and additional loans from shareholders in 2003 and 2002 was primarily due to a decrease in the number of vessels delivered in line with lower capital expenditure as mentioned above under ‘‘Investing cashflow’’.

As at 31 December 2003, the primary source of liquidity was US$5.7 million of bank balances and cash. As at 31 December 2003, the Initial Companies had a negative working capital of US$5.7 million. The working capital was negative because of the current portion of long-term bank loans of US$10.9 million being recognised as a current liability. The current financial resources combined with net cash to be generated from operating activities are expected to be sufficient to meet our financial requirements over the next 12 months.

As at 31 December 2003, the Initial Companies had total debt outstanding of US$177.1 million, comprising bank loans of US$145.9 million and loans from shareholders of US$31.2 million. These bank loans carried interest rates which ranged from approximately 2.5% to 3.9% in 2003. The bank loans are secured by mortgages over the vessels of the Initial Companies. The loans from shareholders were unsecured and interest free and had been capitalised on 30 March 2004.

The bank loans contain various financial and other covenants. The Initial Companies are not allowed, without the bank's written consent to (i) sell, transfer, abandon or dispose of the mortgaged vessels or any share or interest in them; (ii) let the mortgaged vessels on demise charter or any time or consecutive Voyage Charter for a term exceeding twelve months' duration; (iii) enter into any agreement or arrangement whereby the mortgaged vessels' earnings may be shared with any other person; (iv) appoint another manager of the mortgaged vessels; or (v) permit any new mortgage or liens on the mortgaged vessels. The Initial Companies were in compliance with all of the covenants contained in the bank loan agreements as at 31 December 2003.

Capital Expenditures

In 2003, 2002 and 2001, capital expenditures for vessel additions totalled US$27.1 million, US$54.0 million and US$83.2 million, respectively.

As at 31 December 2003, the Initial Companies had non-cancellable commitments for the construction of two Handysize vessels for delivery in May 2004, with an aggregate unpaid cost of approximately US$28.2 million. Unpaid costs are net of progress payments and prepayments. Scheduled payments will be funded in 2004. Finance for such vessel commitments shall come from cash generated from operations and additional long-term debt, as required. Cash generated from operations that may, in the future, be utilised to finance the vessel commitments is dependent on the rates at which vessels can be chartered. Cancellation of these contracts, except as provided in the contracts, could result in all or a portion of the down payments and progress payments made being forfeited and could require a reimbursement to the shipyard for any losses that the shipyard may incur as a result of such cancellation.

Prior to the Reorganisation, the Management Companies were subsidiaries of Pembroke which was engaged in the ship-owning, ship-operating and ship management business. The Management Companies were directly involved in the provision of such ship-operation and ship management services to ship owners under commercial and technical management contracts including the Initial Companies and Vessel Companies. These companies were established and managed by Pembroke since inception pursuant to long-term management contracts. We set forth below extracts from the Accountants' Report on PB Management Holding Limited, the holding company for the Management Companies, set out in Appendix IB.

Historical Results of Operations — Management Companies

	2001	2002	2003
	US$'000	US$'000	US$'000
Profit and Loss Account			
Turnover			
Commercial management fees	6,491	6,912	11,852
Technical management fees and marine services income	8,528	10,862	11,426
Charter-hire and related income	—	368	7,705
Total turnover	15,019	18,142	30,983
Other revenues	545	392	426
Direct costs			
Charter-hire expenses on vessels	—	(353)	(6,340)
Cost of inventories sold	(1,271)	(1,146)	(859)
Distribution cost	(419)	(863)	(1,173)
Total direct costs	(1,690)	(2,362)	(8,372)
General and administrative expenses	(10,117)	(11,683)	(17,612)
Other operating (expenses)/income	(117)	(3)	1,028
Operating profit	3,640	4,486	6,453
Finance costs	—	—	—
Share of profits less losses of jointly controlled entities	—	—	(306)
Profit before taxation	3,640	4,486	6,147
Taxation	(349)	(632)	(918)
Profit after taxation	3,291	3,854	5,229
Minority interests	(320)	(964)	(847)
Profit attributable to shareholders	2,971	2,890	4,382
Dividends	2,491	2,654	1,321

	2001	2002	2003
	US$'000	US$'000	US$'000
Balance Sheet			
Current assets			
Bank balances and cash (including restricted cash)	3,806	6,149	11,515
Trade, other receivables and prepayments	3,344	5,610	10,248
Inventories	1,302	2,747	3,471
Loan to a shareholder	—	—	800
Amounts due from related companies	3,105	1,158	6,065
Sub-total	11,557	15,664	32,099
Fixed assets	541	511	656
Interests in jointly controlled entities	—	—	594
Interest in an associated company	—	—	58
Investment securities	—	200	200
Pensions assets	7	74	116
Loan to a shareholder	—	2,500	1,700
Total assets	12,105	18,949	35,423
Current liabilities			
Trade and other payables	7,419	10,938	21,686
Taxation payable	478	1,011	1,611
Amounts due to related companies	819	2,740	4,604
Sub-total	8,716	14,689	27,901
Other long-term liabilities and minority interest	390	1,558	1,753
Total liabilities and minority interest	9,106	16,247	29,654
Shareholders' funds	2,999	2,702	5,769
Total liabilities, equity and minority interests	12,105	18,949	35,423
Other			
Capital expenditures	521	181	397
Depreciation and amortisation	154	208	247
Net cash flow from operating activities	1,541	8,011	5,681
Net cash flow used in investing activities	(394)	(2,747)	(1,204)
Net cash flow used in financing activities	(1,359)	(2,921)	(2,015)

Year Ended 31 December 2003 Compared to Year Ended 31 December 2002

Turnover

Turnover in total increased by 71.3% to US$31.0 million in 2003 from US$18.1 million in 2002.

Revenues from Commercial Management. Revenues from commercial management increased by 72.5% to US$11.9 million (including US$2.3 million from vessels of the Initial Companies and the Vessel Companies and US$9.6 million from third party vessels) in 2003 from US$6.9 million (including US$1.6 million from vessels of the Initial Companies and the Vessel Companies and US$5.3 million from third party vessels) in 2002. Commercial management revenue comprised a fixed and a variable element. The fixed element represents monthly management charge and the variable element represents chartering commissions levied on the gross freight and sale and purchase commission on the proceeds upon sale and purchase of vessels under management. The increase in revenues from commercial management was primarily due to three factors: (i) an increase in sale and purchase commissions as a result of 14 vessels being purchased or sold in 2003 compared to nine vessels in 2002, leading to an increase in revenues to US$3.1 million in 2003 from US$0.7 million in 2002; (ii) an increase in management fees as the number of vessels under management rose from an average of 32 vessels in 2002 to an average of 38 vessels in 2003; and (iii) an increase in chartering commissions as a result of the expansion of the IHC Pool from an average of 24 in 2002 to an average of 34 in 2003 and increases in average time charter-hire rate from approximately US$6,100 in 2002 to approximately US$9,800 in 2003.

Revenues from Technical Management and Marine Services. Revenues from technical management and marine services increased by 4.6% to US$11.4 million (including US$1.4 million from vessels of the Initial Companies and the Vessel Companies and US$10.0 million from third party vessels) in 2003 from US$10.9 million (including US$1.1 million from vessels of the Initial Companies and the Vessel Companies and US$9.8 million from third party vessels) in 2002. The average number of vessels managed decreased by 12.9% to approximately 54 in 2003 from approximately 62 in 2002 because of higher number of departing vessels than incoming vessels. This had reduced the monthly technical management fee income but was offset by an increase in manning and consultancy fees.

Revenues from Charter-hire and Related Income. Revenues from charter-hire and related income increased to US$7.7 million in 2003 from US$0.4 million in 2002. This was a result of an increase in the average number of ships chartered in from approximately 0.1 in 2002 to approximately three in 2003.

Expenses

Direct Costs. Direct costs increased by 250.0% to US$8.4 million in 2003 from US$2.4 million in 2002. The increase in direct costs was primarily due to an increase in charter-hire expenses to US$6.3 million in 2003 from US$0.4 million in 2002.

General and Administrative Expenses. General and administrative expenses increased by 50.4% to US$17.6 million in 2003 from US$11.7 million in 2002. The increase was due to a US$2.7 million increase in staff and other costs as the average headcount rose to approximately 171 in 2003 from approximately 148 in 2002. The remaining increase was largely due to certain staff costs being borne by the shareholders in 2001 and 2002. On 1 January 2003, the employment contracts of these staff were replaced by new contracts with the Management Companies to match the costs with associated revenues. Staff costs in 2003 represented 75.0% of total general and administrative expenses.

Other Operating (Expenses)/Income. Other operating income was US$1.0 million in 2003 and nil in 2002. The increase in other operating income was due to a reversal of an over provision crew training expenses in 2003.

Profit

Profit for the year increased to US$4.4 million in 2003 from US$2.9 million in 2002. The increase in profit for the year was a result of an increase of the number of the vessels commercially managed and an improved shipping market together with an increase in the chartering-in activity.

Year Ended 31 December 2002 Compared to Year Ended 31 December 2001

Turnover

Turnover increased by 20.7% to US$18.1 million in 2002 from US$15.0 million in 2001.

Revenues from Commercial Management. Revenues from commercial management increased by 6.2% to US$6.9 million (including US$1.6 million from vessels of the Initial Companies and the Vessel Companies and US$5.3 million from third party vessels) in 2002 from US$6.5 million (including US$1.4 million from vessels of the Initial Companies and the Vessel Companies and US$5.1 million from third party vessels) in 2001.

Revenues from Technical Management and Marine Services. Revenues from technical management and marine services increased by 28.2% to US$10.9 million (including US$1.1 million from vessels of the Initial Companies and the Vessel Companies and US$9.8 million from third party vessels) in 2002 from US$8.5 million (including US$0.3 million from vessels of the Initial Companies and the Vessel Companies and US$8.2 million from third party vessels) in 2001. This was primarily due to a 31.9% increase in the average number of vessels managed to approximately 62 in 2002 from approximately 47 in 2001.

Revenues from Charter-hire and Related Income. Revenues from charter-hire and related income increased to US$0.4 million in 2002 from nil in 2001. This was a result of the commencement of chartering in vessels in late 2002.

Expenses

Direct Costs. Direct costs increased by 41.2% to US$2.4 million in 2003 from US$1.7 million in 2002. The increase in direct costs was driven by an increase in the distribution costs and the commencement of the chartering-in activities.

General and Administrative Expenses. General and administrative expenses increased by 15.8% to US$11.7 million in 2002 from US$10.1 million in 2001. This increase was largely due to an increase in the average head count to approximately 148 in 2002 from approximately 111 in 2001.

Profit

Profit for the year was US$2.9 million in 2002 and was not materially different from US$3.0 million in 2001.

Year Ended 31 December 2001

Turnover

Turnover was US$15.0 million.

Revenues from Commercial Management. Revenues from commercial management were approximately US$6.5 million (including US$1.4 million from vessels of the Initial Companies and the Vessel Companies and US$5.1 million from third party vessels).

Revenues from Technical Management and Marine Services. Revenues from technical management and marine services were US$8.5 million (including US$0.3 million from vessels of the Initial Companies and the Vessel Companies and US$8.2 million from third party vessels). The average number of vessels managed was approximately 47.

Expenses

Direct Costs. Direct costs were US$1.7 million.

General and Administrative Expenses. General and administrative expenses were US$10.1 million, largely made up of staff costs which represented 68.7% of the total. The average head count was approximately 111.

Profit

Profit for the year was US$3.0 million.

Liquidity and Sources of Capital

The Management Companies have historically relied on cash generated from operations to fund working capital.

Operating cashflow. Net cash provided by operating activities was US$5.7 million in 2003. Net cash provided by operating activities was US$8.0 million in 2002, and net cash provided by operating activities in 2001 was US$1.5 million. The reduction in net cash provided by operating activities in 2003, as compared to 2002, was primarily due to a deposit of US$2.9 million being pledged with a bank in relation to a currency hedge of an investment in a newbuilding project. The increase in net cash provided by operating activities in 2002, as compared to 2001, was primarily due to a reduction in the amount due from a related company.

Investing cashflow. Net cash used by investing activities was US$1.2 million in 2003, as a result of a combination of the purchase of fixed assets of US$0.4 million and an investment of US$0.9 million in a jointly controlled entity involved in chartering. Net cash used by investing activities was US$2.7 million in 2002, primarily as a result of a loan given to a related company. Net cash used by investing activities was US$0.4 million in 2001, primarily as a result of purchases of fixed asset.

Financing cashflow. Net cash used by financing activities was US$2.0 million in 2003, as a result of a dividend paid out in the year. Net cash used by financing activities was US$2.9 million in 2002 as a result of a dividend paid out in the year. Net cash used by financing activities was US$1.4 million in 2001, wholly as a result of a dividend paid out in the year.

Unpledged cash balances as at 31 December 2001, 2002 and 2003 were US$3.3 million, US$5.6 million and US$8.1 million respectively. The current financial resources combined with net cash to be generated from operating activities are expected to be sufficient to meet the financial requirements over the next 12 months. As at 31 December 2003, the working capital was US$4.2 million.

As at 31 December 2003, the Management Companies did not have any debt outstanding.

Capital Expenditures

The Management Companies had not committed any capital expenditure as at 31 December 2003.

Selected Historical Audited Financial Information — Vessel Companies

Each of the Vessel Companies was established by Pembroke to own vessels for and on behalf of their respective investors. These companies and the vessels owned by them have been managed by Pembroke since inception pursuant to long-term management contracts. Through the board composition or management contracts, Pembroke controls the operation of the vessels.

	Beckley Group	Eastern Venture Corporation			Foreview Holdings Limited	Keswick Group	Investors Choice Group	New Majestic Group	Riley Shipping (BVI) Limited	
	2003	2001	2002	2003	2003	2003	2003	2003	2002	2003
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Profit and Loss Account										
Turnover										
Charter-hire income from pooling arrangement	207	—	—	—	2,805	992	—	—	—	—
Other charter-hire income	—	—	—	—	—	389	—	—	—	—
Total turnover	207	—	—	—	2,805	1,381	—	—	—	—
Dividend income	—	—	—	635	—	—	—	—	—	—
Other revenue	2	—	—	—	—	1	—	—	—	—
Direct costs										
Crew expenses	(17)	—	—	—	(344)	(160)	—	—	—	—
Depreciation	(27)	—	—	—	(450)	(202)	—	—	—	—
Spare parts and lubricating oil	—	—	—	—	(227)	(119)	—	—	—	—
Others	(23)	—	—	—	(545)	(339)	—	—	—	—
Total direct costs	(67)	—	—	—	(1,566)	(820)	—	—	—	—
General and administrative expenses	(12)	(16)	(15)	(10)	(112)	(66)	—	—	—	—
Operating profit/(loss)	130	(16)	(15)	625	1,127	496	—	—	—	—
Finance costs	(13)	—	—	—	(192)	(92)	—	—	—	—
Profit/(loss) attributable to shareholders	117	(16)	(15)	625	935	404	—	—	—	—
Balance Sheet										
Current assets										
Bank balances and cash	232	—	—	—	1,027	782	11	—	—	5
Trade, other receivables and prepayment	6	—	—	41	3	22	—	—	75	285
Inventories, at cost	46	—	—	—	38	50	—	—	—	—
Amount due from a shareholder	—	—	—	—	—	2	—	—	1,186	570
Amounts due from related companies	112	—	—	—	112	—	351	2,128	257	—
Sub-total	396	—	—	41	1,180	856	362	2,128	1,518	860
Fixed assets	10,737	—	—	—	9,664	7,866	7,467	772	710	3,728
Investment in a jointly controlled entity	—	2,900	2,900	2,900	—	—	—	—	—	—
Deferred loan arrangement fee	39	—	—	—	49	58	—	—	—	—
Restricted bank deposit	100	—	—	—	150	150	—	—	—	—
Total assets	11,272	2,900	2,900	2,941	11,043	8,930	7,829	2,900	2,228	4,588
Current liabilities										
Short-term bank loan (including current portion of long-term)	800	—	—	—	825	1,000	—	—	—	—
Accruals and other payables	150	—	—	—	202	326	—	—	28	—
Amount due to a shareholder	—	—	—	—	5	—	—	—	—	—
Amount due to a related company	5	16	31	41	51	75	129	—	—	188
Sub-total	955	16	31	41	1,083	1,401	129	—	28	188
Long-term bank loan (excluding current portion)	7,200	—	—	—	6,525	5,125	2,400	—	—	—
Total liabilities	8,155	16	31	41	7,608	6,526	2,529	—	28	188
Shareholders' funds	3,117	2,884	2,869	2,900	3,435	2,404	5,300	2,900	2,200	4,400
Total liabilities and equity	11,272	2,900	2,900	2,941	11,043	8,930	7,829	2,900	2,228	4,588
Other										
Capital expenditures	10,764	N/A	N/A	N/A	10,114	8,068	7,467	772	710	3,018
Depreciation and amortisation	28	N/A	N/A	N/A	456	207	N/A	N/A	N/A	N/A
Net cash flow from/(used in) operating activities	146	N/A	N/A	N/A	1,682	1,024	(222)	N/A	N/A	823
Net cash used in investing activities	(10,862)	N/A	N/A	N/A	(10,264)	(8,217)	(7,467)	N/A	N/A	(3,018)
Net cash flow from financing activities	10,948	N/A	N/A	N/A	9,609	7,975	7,700	N/A	N/A	2,200

Historical Results of Operations — Beckley Group

We set forth below extracts from the Accountants' Report on Beckley Enterprises Limited set out in Appendix IC.

	2003
	US$'000
Profit and Loss Account	
Turnover — Charter-hire income from pooling arrangement	207
Other revenue	2
Direct costs	(67)
General and administrative expenses	(12)
Operating profit	130
Finance costs	(13)
Profit attributable to shareholders	117
Balance Sheet	
Current assets	
Bank balances and cash	232
Trade, other receivables and prepayment	6
Inventories, at cost	46
Amounts due from related companies	112
Sub-total	396
Fixed asset	10,737
Deferred loan arrangement fee	39
Restricted bank deposit	100
Total assets	11,272
Current liabilities	
Short-term bank loan (including current portion of long-term)	800
Accruals and other payables	150
Amount due to a related company	5
Sub-total	955
Long-term bank loan (excluding current portion)	7,200
Total liabilities	8,155
Shareholders' funds	3,117
Total liabilities and equity	11,272
Other	
Capital expenditures	10,764
Depreciation and amortisation	28
Net cash flow from operating activities	146
Net cash used in investing activities	(10,862)
Net cash flow from financing activities	10,948

Beckley Group owns a vessel, the Apollo Bay (as per Fleet List mentioned in the Owned Fleet item no. 18, of the Business section). The shareholders of Beckley Group and their shareholding in the Company are disclosed in Appendix VI, Section A, 4(g).

Year Ended 31 December 2003

Turnover

Revenues from Charter-hire. The revenues were US$0.2 million. The vessel, Apollo Bay, was delivered on 16 December 2003 and was in operation at an average daily rate of approximately US$14,200.

Expenses

Direct Costs. Direct costs were US$0.1 million. Average daily vessel operating expense for the post delivered period was approximately US$2,700.

Profit

Profit was US$0.1 million for the period, wholly contributed by the operations of the vessel.

Liquidity and Sources of Capital

Operating cashflow. Net cash provided by operating activities was US$0.1 million in 2003.

Investing cashflow. Net cash used by investing activities was US$10.9 million in 2003, primarily as a result of the purchase of the vessel.

Financing cashflow. Net cash provided by financing activities was US$10.9 million in 2003, primarily as a result of share issuance of US$3.0 million and drawdown of bank loan of US$8.0 million for acquisition of the vessel.

As at 31 December 2003, this company's primary source of liquidity was US$0.2 million of bank balances and cash. As of 31 December 2003, this company had a negative working capital of US$0.6 million because of the current portion of long-term bank loan of US$0.8 million being recognised as a current liability. This company's current financial resources combined with net cash to be generated from operating activities is expected to be sufficient to meet the financial requirements over the next 12 months.

As at 31 December 2003, this company had total debt outstanding of US$8.0 million. This bank loan carried an interest rate of approximately 2.8% in 2003. The bank loan is secured by a mortgage over the vessel.

This company's bank loan contains various financial and other covenants. This company is not allowed, without the bank's written consent to (i) sell, transfer, abandon or dispose of the mortgaged vessel or any share or interest in it; (ii) let the mortgaged vessel on demise charter or any time or consecutive Voyage Charter for a term exceeding 12 months' duration; (iii) enter into any agreement or arrangement whereby the mortgaged vessel's earnings may be shared with any other person; (iv) appoint another manager of the mortgaged vessel; or (v) permit any new mortgage or liens on the mortgaged vessel. This company is in compliance with all of the covenants contained in the bank loan agreement as at 31 December 2003.

Capital Expenditures

This company had not committed any capital expenditure as at 31 December 2003.

Historical Results of Operations — Eastern Venture Corporation

We set forth below extracts from the Accountants' Report on Eastern Venture Corporation set out in Appendix IC.

	2001	2002	2003
	US$'000	US$'000	US$'000
Profit and Loss Account			
Dividend income	—	—	635
General and administrative expenses	(16)	(15)	(10)
Profit attributable to shareholders	(16)	(15)	625
Balance Sheet			
Current assets			
Trade, other receivables and prepayment	—	—	41
Investment in a jointly controlled entity	2,900	2,900	2,900
Total assets	2,900	2,900	2,941
Current liability			
Amount due to a related company	16	31	41
Total liability	16	31	41
Shareholders' funds	2,884	2,869	2,900
Total liability and equity	2,900	2,900	2,941

Eastern Venture Corporation holds 63.5% of the class B shares in Pacific Basin Bulker (No. 103) Limited, a vessel owning company jointly controlled by Pembroke and another investor (each with 50% of the class A shares). Shareholders of such class A shares are entitled to voting rights, while profit was distributed in accordance with the percentage of class B shares held. The voting rights and the equity interest are not proportional which was the result of the commercial arrangement among the shareholders. The jointly controlled entity owns a vessel, the Captain Corelli (as per Fleet List mentioned in the Owned Fleet item no. 12, of the Business section). The shareholders of Eastern Venture Corporation and their shareholding in the Company are disclosed in Appendix VI Section A 4(g). In 2003, the jointly controlled entity declared a dividend of US$1.0 million, of which this company received 63.5%. The jointly controlled entity did not declare any dividend in 2002 and 2001.

Liquidity and Sources of Capital

Working capital as at 31 December 2003 was nil. This company's current financial resources combined with net cash to be generated from operating activities is expected to be sufficient to meet its financial requirements over the next 12 months.

Capital Expenditures

This company had not made any capital expenditure commitment as at 31 December 2003.

Historical Results of Operations — Foreview Holdings Limited

We set forth below extracts from the Accountants' Report on Foreview Holdings Limited set out in Appendix IC.

	2003
	US$'000
Profit and Loss Account	
Turnover	
Charter-hire income from pooling arrangement	2,805
Direct costs	
Crew expenses	(344)
Depreciation	(450)
Spare parts and lubricating oil	(227)
Others	(545)
Total direct costs	(1,566)
General and administrative expenses	(112)
Operating profit	1,127
Finance costs	(192)
Profit attributable to shareholders	935
Balance Sheet	
Current assets	
Bank balances and cash	1,027
Trade, other receivables and prepayments	3
Inventories, at cost	38
Amount due from a related company	112
Sub-total	1,180
Fixed asset	9,664
Deferred loan arrangement fee	49
Restricted bank deposit	150
Total assets	11,043
Current liabilities	
Short-term bank loans (including current portion of long-term)	825
Accruals and other payables	202
Amount due to a shareholder	5
Amount due to a related company	51
Sub-total	1,083
Long-term bank loans (excluding current portion)	6,525
Total liabilities	7,608
Shareholders' funds	3,435
Total liabilities and equity	11,043
Other	
Capital expenditures	10,114
Depreciation and amortisation	456
Net cash flow from operating activities	1,682
Net cash used in investing activities	(10,264)
Net cash flow from financing activities	9,609

Foreview Holdings Limited owns a vessel, the Stewart Island (as per Fleet List mentioned in the Owned Fleet item no. 16, of the Business section). The shareholders of Foreview Holdings Limited and their shareholding in the Company are disclosed in Appendix VI, Section A, 4(g).

Year Ended 31 December 2003

Turnover

Revenues from Charter-hire. Revenues were US$2.8 million. The vessel, Stewart Island, was delivered on 22 February 2003 and was immediately in operation after delivery at an average daily rate of approximately US$8,900.

Expenses

Direct Costs. Direct costs were US$1.6 million. Average daily vessel operating expense for the post delivered period was approximately US$3,600 which included a drydocking. Depreciation expense was US$0.5 million.

Finance Costs. Finance costs were US$0.2 million, representing interest paid for ten and a half months only.

Profit

Profit was US$0.9 million wholly contributed to by the operations of the vessel.

Liquidity and Sources of Capital

Operating cashflow. Net cash provided by operating activities was US$1.7 million in 2003.

Investing cashflow. Net cash used by investing activities was US$10.3 million in 2003, primarily as a result of the purchase of the vessel.

Financing cashflow. Net cash provided by financing activities was US$9.6 million in 2003, primarily as a result of share issuance of US$2.5 million and drawdown of bank loan of US$7.8 million for acquisition of the vessel.

As at 31 December 2003, this company's primary source of liquidity was US$1.0 million of bank balances and cash. As at 31 December 2003, there was a positive working capital of US$0.1 million. This company's current financial resources combined with net cash to be generated from operating activities is expected to be sufficient to meet its financial requirements over the next 12 months.

As at 31 December 2003, total debt outstanding was US$7.4 million. This bank loan carried an interest rate of approximately 2.8% in 2003. The bank loan is secured by mortgages over the vessel.

The bank loan contains various financial and other covenants. This company is not allowed, without the bank's written consent to (i) sell, transfer, abandon or dispose of the mortgaged vessel or any share or interest in it; (ii) let the mortgaged vessel on demise charter or any time or consecutive Voyage Charter for a term exceeding 12 months' duration; (iii) enter into any agreement or arrangement whereby the mortgaged vessel's earnings may be shared with any other person; (iv) appoint another manager of the mortgaged vessel; or (v) permit any new mortgage or liens on the mortgaged vessel. This company was in compliance with all of the covenants contained in the bank loan agreement as at 31 December 2003.

Capital Expenditures

This company had not committed to make any significant additional capital expenditure as at 31 December 2003.

Historical Results of Operations — Keswick Group

We set forth below extracts from the Accountants' Report on Keswick Holdings Limited set out in Appendix IC.

	2003
	US$'000
Profit and Loss Account	
Turnover	
Charter-hire income from pooling arrangement	992
Other charter-hire income	389
Total turnover	1,381
Other revenue	1
Direct costs	
Crew expenses	(160)
Depreciation	(202)
Spare parts and lubricating oil	(119)
Others	(339)
Total direct costs	(820)
General and administrative expenses	(66)
Operating profit	496
Finance costs	(92)
Profit attributable to shareholders	404
Balance Sheet	
Current assets	
Bank balances and cash	782
Trade, other receivables and prepayment	22
Inventories, at cost	50
Amount due from a shareholder	2
Sub-total	856
Fixed asset	7,866
Deferred loan arrangement fee	58
Restricted bank deposit	150
Total assets	8,930
Current liabilities	
Short-term bank loan (including current portion of long-term)	1,000
Accruals and other payables	326
Amounts due to related companies	75
Sub-total	1,401
Long-term bank loans (excluding current portion)	5,125
Total liabilities	6,526
Shareholders' funds	2,404
Total liabilities and equity	8,930
Other	
Capital expenditures	8,068
Depreciation and amortisation	207
Net cash flow from operating activities	1,024
Net cash used in investing activities	(8,217)
Net cash flow from financing activities	7,975

Keswick Group owns a vessel, the Priory Bay (as per Fleet List mentioned in the Owned Fleet item no.19, of the Business section). The shareholders of Keswick Group and their shareholding in the Company are disclosed in Appendix VI, Section A, 4(g).

Year Ended 31 December 2003

Turnover

Revenues from Charter-hire. Revenues were US$1.4 million. The vessel, Priory Bay, was delivered on 8 August 2003 and was immediately in operation after delivery at an average daily rate of approximately US$9,500.

Expenses

Direct Costs. Direct costs were US$0.8 million. Average daily vessel operating expenses for the post delivered period were approximately US$4,200 which included a drydocking. Depreciation expense was US$0.2 million.

Finance Costs. Finance costs were US$0.1 million.

Profit

Profit was US$0.4 million, wholly contributed by the operations of the vessel.

Liquidity and Sources of Capital

Operating cashflow. Net cash provided by operating activities was US$1.0 million in 2003.

Investing cashflow. Net cash used by investing activities was US$8.2 million in 2003, primarily as a result of the purchase of the vessel.

Financing cashflow. Net cash provided by financing activities was US$8.0 million in 2003, primarily as a result of share issuance of US$2.0 million and drawdown of bank loan of US$6.4 million for acquisition of the vessel.

As at 31 December 2003, the primary source of liquidity was US$0.8 million of bank balances and cash. As of 31 December 2003, there was a negative working capital of US$0.5 million. The working capital was negative because of current portion of long-term bank loan of US$1.0 million being recognised as a current liability. This company's current financial resources combined with net cash to be generated from operating activities are expected to be sufficient to meet its financial requirements over the next 12 months.

As at 31 December 2003, there was total debt outstanding of US$6.1 million. This bank loan carried an interest rate of approximately 2.8% in 2003. The bank loan is secured by mortgages over the vessel.

This company's bank loan contains various financial and other covenants. This company is not allowed, without the bank's written consent to (i) sell, transfer, abandon or dispose of the mortgaged vessel or any share or interest in it; (ii) let the mortgaged vessel on demise charter or any time or consecutive Voyage Charter for a term exceeding 12 months' duration; (iii) enter into any agreement or arrangement whereby the mortgaged vessel's earnings may be shared with any other person; (iv) appoint another manager of the mortgaged vessel; or (v) permit any new mortgage or liens on the mortgaged vessel. This company was in compliance with all of the covenants contained in the bank loan agreement as at 31 December 2003.

Capital Expenditures

This company had not committed into any capital expenditure as at 31 December 2003.

Historical Results of Operations — Investors Choice Group

We set forth below extracts from the Accountants' Report on Investors Choice Limited set out in Appendix IC.

	2003
	US$'000
Balance Sheet	
Current assets	
Bank balances and cash	11
Amount due from a related company	351
Sub-total	362
Fixed assets	7,467
Total assets	7,829
Current liability	
Amount due to a related company	129
Long-term bank loan	2,400
Total liabilities	2,529
Shareholders' funds	5,300
Total liabilities and equity	7,829
Other	
Capital expenditures	7,467
Net cash used in operating activities	(222)
Net cash used in investing activities	(7,467)
Net cash flow from financing activities	7,700

Investors Choice Limited and its wholly-owned subsidiaries have not been involved in any significant business transactions other than to invest US$7.5 million towards two ship building contracts, for the Xiamen Sea and Xiamen Hull XSI-401B (as per Fleet List mentioned in the Newbuildings Fleet item no. 46 and 47, of the Business section). The shareholders of Investors Choice Group and their shareholding in the Company are disclosed in Appendix VI, Section A, 4(g).

Liquidity and Sources of Capital

Operating cashflow. Net cash used by operating activities was US$0.2 million.

Investing cashflow. Net cash used by investing activities was US$7.5 million in 2003, primarily as a result of instalments paid for vessels under construction.

Financing cashflow. Net cash provided by financing activities was US$7.7 million in 2003, primarily as a result of issues of shares of US$5.3 million and drawdown of bank loan pre-delivery for vessels under construction of US$2.4 million.

As at 31 December 2003, total debt outstanding was US$2.4 million. These bank loans carried interest rates of approximately 2.9% in 2003. The bank loans are secured by an assignment over the Company's ship building contracts and refund guarantees from the shipyard. Bank loan interest incurred as at 31 December 2003 has been capitalised in the cost of vessel.

The bank loans contain various financial and other covenants. The company is not allowed, without the bank's written consent to (i) sell, assign, dispose of or create any charge in relation to the ship building contracts or any share or interest in them; (ii) change the provisions of the ship building contracts or the specifications of the vessels under construction substantially which would substantially change the costs and/or delay the delivery of the vessels; or (iii) assign the future earnings to a party other than the financing bank. This company was in compliance with all of the covenants contained in the bank loan agreements as at 31 December 2003.

Capital Expenditures

In 2003, capital expenditures for vessel additions totalled US$7.5 million, financed primarily by shareholders' equity and long-term debt. As at 31 December 2003, this company has non-cancellable commitments for the construction of two Handymax vessels for delivery between September 2004 and January 2005, with an aggregate unpaid cost of approximately US$28.6 million, which are expected to be funded by long-term debt which has already been arranged.

Cancellation of these contracts, except as provided in the contracts, could result in all or a portion of the down payments and progress payments made being forfeited and could require reimbursement to the shipyard for any losses that the shipyard may incur as a result of such cancellation.

Historical Results of Operations — New Majestic Group

We set forth below extracts from the Accountants' Report on New Majestic International Limited set out in Appendix IC.

	2003
	US$'000
Balance Sheet	
Current asset	
Amount due from a related company	2,128
Fixed asset	772
Total assets	2,900
Shareholders' funds	2,900
Other	
Capital expenditures	772

New Majestic International Limited and its wholly owned subsidiary have not been involved in any significant business transactions other than to pay approximately US$0.8 million towards the construction of a vessel, Hakodate Hull 797 (as per Fleet List mentioned in the Newbuildings Fleet item no. 44, of the Business section). The shareholders of New Majestic International Limited and their shareholding in the Company are disclosed in Appendix VI, Section A, 4(g).

Capital Expenditures

In 2003, capital expenditures for vessel addition totalled US$0.8 million. Vessel addition is financed primarily with shareholders' equity. As at 31 December 2003, this company had a non-cancellable commitment for the construction of one Handysize vessel for delivery in August 2004, with an aggregate unpaid cost of approximately US$14.9 million which the Company expects to finance from shareholders' equity and long-term debt, as required. Cancellation of this contract, except as provided in the contract, could result in all or a portion of the down payments and progress payments made being forfeited and could require reimbursement to the shipyard for any losses that the shipyard may incur as a result of such cancellation.

Historical Results of Operations — Riley Shipping (BVI) Limited

We set forth below extracts from the Accountants' Report on Riley Shipping (BVI) Limited set out in Appendix IC.

	2002	2003
	US$'000	US$'000
Balance Sheet		
Current assets		
Bank balances and cash	—	5
Trade, other receivables and prepayments	75	285
Amount due from a shareholder	1,186	570
Amount due from a related company	257	—
Sub-total	1,518	860
Fixed asset	710	3,728
Total assets	2,228	4,588
Current liabilities		
Accruals and other payables	28	—
Amount due to a related company	—	188
Total liabilities	28	188
Shareholders' funds	2,200	4,400
Total liabilities and equity	2,228	4,588
Other		
Capital expenditures	710	3,018

Riley Shipping (BVI) Limited has not been involved in any significant business transactions other than to pay a total of US$3.7 million towards a shipbuilding contract for the Sun Ruby (as per Fleet List mentioned in the Owned Fleet item no. 1 of the Business section). The shareholders of Riley Shipping (BVI) Limited and their shareholding in the Company are disclosed in Appendix VI, Section A, 4(g).

Liquidity and Sources of Capital

Working capital as at 31 December 2003 was US$0.7 million. The company's current financial resources combined with net cash to be generated from operating activities are expected to be sufficient to meet its financial requirements over the next 12 months.

As at 31 December 2003, this company did not have any debt outstanding.

Capital Expenditures

In 2003, capital expenditures for vessel addition totalled US$3.0 million. Vessel additions are financed primarily with shareholders' equity. As at 31 December 2003, this company had a non-cancellable commitment for the construction of one Handysize vessel for delivery in March 2004, with an aggregate unpaid cost of approximately US$11.6 million, which is expected to be financed by shareholders' equity and long-term debt, as required. Cancellation of this contract, except as provided in the contract, could result in all or a portion of the down payments and progress payments made being forfeited and could require reimbursement to the shipyard for any losses that the shipyard may incur as a result of such cancellation.

QUANTITATIVE AND QUALITATIVE DISCLOSURE ABOUT MARKET RISK

The Group has entered into foreign currency transactions to hedge risks arising from foreign currency fluctuations.

Although the Group's activities are conducted worldwide, the international shipping industry's functional currency is the United States Dollar and virtually all of the Group's revenues and most of its operating expenses have been and are expected to continue to be denominated in United States Dollars. However, portions of the Group's total expenditures (including capital expenditures) are denominated in other currencies. In addition, demand for shipping services may be affected by the ability of shippers to pay United States Dollar denominated freight rates. Accordingly, movements in currency exchange rates or the imposition of currency controls in jurisdictions in which its vessels operate may adversely affect the Group's operating results.

The Group is exposed to market risk from changes in interest rates, which could impact its results of operations and financial position. As of 31 December 2003, bank loan in the amount of US$169.7 million bears interest at LIBOR plus a fixed margin.

INDEBTEDNESS

Borrowings

As at 30 April 2004, being the latest practicable date for the purpose of this indebtedness statement, the Group had total outstanding borrowings of approximately US$243.7 million, comprising secured bank loans of approximately US$180.8 million, and amounts due to Initial Investors and original shareholders of the Vessel Companies and the Management Companies totalling approximately US$62.9 million.

Mortgages and Charges

As at 30 April 2004, the Group's bank loan facilities of approximately US$219.8 million were secured by the following:

(i) Mortgage over vessels of the Group with net book value of approximately US$287.0 million and restricted bank balances of approximately US$3.0 million.

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

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

As at 30 April 2004, the Group also had foreign exchange facility line of approximately US$1.0 million which was secured by pledged bank deposits of approximately US$0.1 million.

Contingent Liabilities

As at 30 April 2004, the Group did not have any material contingent liabilities.

Directors' Opinion of the Working Capital Available to the Group

The Directors are of the opinion that, after taking into account the estimated net proceeds of the Global Offering (see the section headed ''Use of Proceeds'' in the section headed ''Future Plans and Use of Proceeds''), the net additional borrowings arising from two new loan facilities totalling approximately US$310 million, which will be available upon listing and the

Group's internally generated funds, the Group has sufficient working capital to satisfy its requirements for the next 12 months following the date of this prospectus.

Capital Commitments

The following table sets out the capital commitments of the Group as at 30 April 2004.

	Not Later Than 1 Year	Later Than 1 Year But Not Later Than 5 Years	Total
	US$'000	US$'000	US$'000
Capital commitments			
— shipbuilding contracts	61,153	—	61,153
— acquisition of new vessels (note)	81,201	37,299	118,500
	142,354	37,299	179,653

Note: The Group has entered into agreements to purchase several vessels for an aggregate consideration of approximately US$118,500,000, conditional upon the completion of the Listing of the Shares.

Distributable Reserves

As the Company was only incorporated in Bermuda on 10 March 2004 there were no reserves available for distribution to the shareholders as at 31 December 2003.

Disclaimer

Save as disclosed above and apart from intra-group liabilities, neither our Company nor any of our subsidiaries had at the close of business on the Latest Practicable Date, any mortgages, charges, debentures or other loan capital or bank overdraft, loans or similar indebtedness, or any hire purchase commitments, guarantees or any other material contingent liabilities.

UNAUDITED ADJUSTED PRO FORMA COMBINED NET TANGIBLE ASSETS

The following statement of unaudited adjusted pro forma combined net tangible assets of the Group is based on information extracted from the unaudited pro forma combined balance sheet of the Group as at 31 December 2003, as shown in Appendix IIA of the Prospectus and adjusted as follows:

	Unaudited pro forma combined assets and liabilities as at 31 December 2003	Exclusion of intangible assets	Estimated net proceeds from Global Offering	Use of IPO proceeds	Unaudited adjusted pro forma combined net tangible assets
	US$'000	US$'000 (note a)	US$'000 (note b)	US$'000 (note c)	US$'000
Non-current assets	313,300	(25,794)		118,500	406,006
Current assets	41,509		74,486	(47,400)	68,595
Current liabilities . .	(80,522)				(80,522)
Non-current liabilities	(156,263)			(71,100)	(227,363)
	118,024				166,716
Unaudited adjusted pro forma combined net tangible asset value per Share (note d)					HK$1.03 (US$0.132)

Notes:

a. Being exclusion of goodwill.

b. The estimated net proceeds from the Global Offering are derived after deduction of the underwriting fees and other related expenses payable by the Company. The estimated net proceeds from the Global Offering are calculated based on an Offer Price of HK$2.55 per Share, being the mid-point of the proposed Offer Price range of HK$2.20 to HK$2.90 per Share.

c. The Group has entered into agreements to purchase several vessels for an aggregate consideration of approximately US$118,500,000, conditional upon the completion of the listing of the Shares. The consideration will be satisfied partly from proceeds of the Global Offering and partly from new bank borrowings.

d. The unaudited adjusted pro forma combined net tangible asset value per Share is calculated on the basis that 1,267,010,609 Shares will be in issue and that the Over-allotment Option is not exercised.

DIVIDEND POLICY

Our Board of Directors may declare dividends after taking into account our operations, earnings, financial condition, cash requirements, cash availability and other factors as they may deem relevant at such time. The payment and the amount of any dividends declared will be subject to the Bye-laws and the Companies Act. We currently expect to maintain a general policy that not less than 50% of our profits available for distribution in each financial year commencing from the completion of the Reorganisation will be distributed to our shareholders by way of interim and final dividends. As we will not have been listed for the whole of the year ending 31 December 2004, our dividend payment for year 2004 will be based on the results of the period from 1 June 2004 to 31 December 2004.

In connection with the Reorganisation, we have agreed to distribute to our shareholders the full amount of retained earnings attributable to our operations during the period from 1 April 2004 to 31 May 2004. These interim dividends will be paid out of our internal resources and/or cash generated from our operating activities but will not be paid until after the Listing Date. These dividends relate to earnings during a period prior to the Listing Date and were therefore not determined in accordance with our dividend policy as described above.

Purchasers of the Shares in the Global Offering will not be entitled to participate in these dividends. In addition, certain dividends are also expected to be paid to the shareholders of the companies that will comprise the Group pursuant to the Reorganisation for the period up to 31 March 2004. Please see the section headed ‘‘Corporate Reorganisation’’ in Appendix VI.

RULES 13.11 TO 13.16 OF THE LISTING RULES

The Directors have confirmed that they are not aware of any circumstances which would give rise to a disclosure requirement under Rules 13.11 to 13.16 of the Listing Rules.

PROFIT FORECAST FOR THE FINANCIAL YEAR ENDING 31 DECEMBER 2004

As described in detail in the Accountants' Report in Appendix IA, the acquisitions of the economic interests of the Management Companies and the Vessel Companies by the Company took effect from 31 March 2004.

The Group's results for the year ending 31 December 2004 will include the results of the Initial Companies for the full year plus the results of both the Management Companies and the Vessel Companies for the period from 1 April 2004 to 31 December 2004. The profit forecast of the Group for the year ending 31 December 2004 is prepared on the same bases and the assumptions set out in Appendix III.

The Directors believe that on the bases and the assumptions set out in Appendix III and in the absence of unforeseen circumstances, the profit after taxation and minority interests but before extraordinary items for the year ending 31 December 2004 will be not less than US$65 million.

	US$
Forecast profit after taxation and minority interests but before extraordinary items for the year ending 31 December 2004[1]	65 million
Forecast earnings per Share	
Weighted average[2]	0.060

NO MATERIAL ADVERSE CHANGE

Save as disclosed in this prospectus, the Directors believe that there has been no material adverse change in the financial or trading position or prospects of the Group since 31 December 2003.

Notes:

1. The bases and assumptions on which the above profit forecast has been prepared are set out in Appendix III.
2. The calculation of the forecast earnings per Share on a weighted average basis is based on the forecast profit after taxation and minority interests but before extraordinary items for the year ending 31 December 2004 and a weighted average number of 1,079,225,270 Shares issued and outstanding during the year. The calculation assumes that the Over-allotment Option will not be exercised.