
APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

The following is the text of a report, prepared for the purpose of inclusion in this prospectus, from the auditors and reporting accountants of the PB Management Holding Limited, PricewaterhouseCoopers, Certified Public Accountants, Hong Kong.



羅兵咸永道會計師事務所

PricewaterhouseCoopers
22/F, Prince's Building
Central, Hong Kong

30 June 2004

The Directors
Pacific Basin Shipping Limited
PB Management Holding Limited
Goldman Sachs (Asia) L.L.C.

Dear Sirs,

We set out below our report on the financial information relating to PB Management Holding Limited (formerly Transoceanic Group Limited) and its subsidiaries (hereinafter collectively referred to as the "PBMH Group") for inclusion in the prospectus of Pacific Basin Shipping Limited (the "Company") dated 30 June 2004 (the "Prospectus") in connection with the initial listing of the shares of the Company on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

Transoceanic Group Limited was incorporated in the British Virgin Islands on 28 November 2003 with limited liability under the Companies Law (1998 Revision) of the British Virgin Islands. On 6 February 2004, the name of the company was changed from Transoceanic Group to PB Management Holding Limited ("PBMHL"). Pursuant to a group reorganisation as detailed under the section headed "Statutory and General Information — Reorganisation" in Appendix VI to the Prospectus (the "Reorganisation"), which was completed on 30 March 2004, PBMHL became the holding company of the subsidiaries set out in note 29 of section II below.

All the companies comprising the PBMH Group adopt 31 December as their financial year end date.

No audited accounts were prepared by PBMHL and some of the companies comprising the PBMH Group for the Relevant Periods because these companies are newly incorporated or there is no statutory requirement in the countries/jurisdictions in which these companies are incorporated.

We have examined the audited accounts or, where appropriate, the unaudited management accounts of all companies now comprising the PBMH Group for the year ended 31 December 2001, 2002 and 2003 (the "Relevant Periods") or since their respective dates of incorporation, whichever is the shorter period, and have carried out such additional procedures as are necessary in accordance with the Auditing Guideline "Prospectuses and the Reporting Accountant" issued by the Hong Kong Society of Accountants.

The financial information as set out in sections I to III below (the "Financial Information") has been prepared based on the audited accounts or, where appropriate, unaudited management accounts of all companies now comprising the PBMH Group, on the basis set out in note 1 of section II below, after making such adjustments as are appropriate. The directors of respective companies comprising the PBMH Group at the Relevant Periods are responsible for preparing these companies' accounts which give a true and fair view. In preparing these accounts, it is fundamental that appropriate accounting policies are selected and applied consistently.

The directors of the PBMHL ("Directors") are responsible for the Financial Information. It is our responsibility to form an independent opinion, based on our examination, on the Financial Information and to report our opinion.

In our opinion, the Financial Information, for the purpose of this report, and prepared on the basis set out in note 1 of section II below, gives a true and fair view of the combined state of affairs of the PBMH Group as at 31 December 2001, 2002 and 2003 and of the combined results and cash flows of the PBMH Group for the Relevant Periods.

(I) COMBINED FINANCIAL STATEMENTS**(a) Combined profit and loss accounts**

The following is a summary of the combined profit and loss accounts of the PBMH Group for the Relevant Periods, prepared on the basis as set out in note 1 of section II below, after making such adjustments as are appropriate:

	Note	For the year ended 31 December		
		2001 US\$'000	2002 US\$'000	2003 US\$'000
Turnover	3	<u>15,019</u>	<u>18,142</u>	<u>30,983</u>
Direct costs				
Charter-hire expenses on vessels		—	(353)	(6,340)
Cost of inventories sold		(1,271)	(1,146)	(859)
Distribution cost		<u>(419)</u>	<u>(863)</u>	<u>(1,173)</u>
		(1,690)	(2,362)	(8,372)
Other revenues	3	545	392	426
General and administrative expenses		(10,117)	(11,683)	(17,612)
Other operating (expenses)/income (net)		<u>(117)</u>	<u>(3)</u>	<u>1,028</u>
Operating profit	4	3,640	4,486	6,453
Share of profits less losses of jointly controlled entities		—	—	(306)
Profit before taxation		3,640	4,486	6,147
Taxation	5	<u>(349)</u>	<u>(632)</u>	<u>(918)</u>
Profit after taxation		3,291	3,854	5,229
Minority interests		<u>(320)</u>	<u>(964)</u>	<u>(847)</u>
Profit attributable to shareholders		<u>2,971</u>	<u>2,890</u>	<u>4,382</u>
Dividends	6	<u>2,491</u>	<u>2,654</u>	<u>1,321</u>

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

(b) Combined balance sheets

The following is a summary of the combined balance sheets of the PBMH Group as at 31 December 2001, 2002 and 2003, prepared on the basis as set out in note 1 of section II below, after making such adjustments as are appropriate:

	Note	As at 31 December		
		2001 US\$'000	2002 US\$'000	2003 US\$'000
Non-current assets				
Fixed assets	10	541	511	656
Interests in jointly controlled entities	11	—	—	594
Interest in an associated company	12	—	—	58
Investment securities	13	—	200	200
Pension assets	14	7	74	116
Loan to a shareholder of PBMHL	15	—	2,500	1,700
		<u>548</u>	<u>3,285</u>	<u>3,324</u>
Current assets				
Inventories	16	1,302	2,747	3,471
Loan to a shareholder of PBMHL	15	—	—	800
Amounts due from related companies	17	3,105	1,158	6,065
Trade and other receivables	18	3,344	5,610	10,248
Bank balances and cash				
— pledged	19	500	500	3,404
— unpledged		<u>3,306</u>	<u>5,649</u>	<u>8,111</u>
		<u>11,557</u>	<u>15,664</u>	<u>32,099</u>
Current liabilities				
Trade and other payables	20	7,419	10,938	21,686
Taxation payable		478	1,011	1,611
Amounts due to related companies	17	819	2,740	4,604
		<u>8,716</u>	<u>14,689</u>	<u>27,901</u>
Net current assets		<u>2,841</u>	<u>975</u>	<u>4,198</u>
Total assets less current liabilities		<u>3,389</u>	<u>4,260</u>	<u>7,522</u>
Financed by:				
Combined shareholders' equity		2,999	2,702	5,769
Minority interests		390	1,546	1,734
Non-current liabilities				
Deferred tax liabilities	22	—	12	19
		<u>3,389</u>	<u>4,260</u>	<u>7,522</u>

(c) Combined statements of changes in equity

The following is a summary of the combined statements of changes in equity of the PBMH Group for the Relevant Periods, prepared on the basis set out in note 1 of section II below, after making such adjustments as are appropriate:

	<u>Combined share capital (note 21)</u> US\$'000	<u>Capital reserves (note 21)</u> US\$'000	<u>Exchange reserves</u> US\$'000	<u>Retained profits</u> US\$'000	<u>Total</u> US\$'000
At 1 January 2001	12	136	(5)	1,217	1,360
Exchange differences arising on translation of the accounts of foreign subsidiaries	—	—	5	—	5
Profit for the year	—	—	—	2,971	2,971
Dividends	—	—	—	<u>(1,337)</u>	<u>(1,337)</u>
At 31 December 2001 and retained by subsidiaries	<u>12</u>	<u>136</u>	<u>—</u>	<u>2,851</u>	<u>2,999</u>
Representing:					
Proposed dividends				2,491	
Others				<u>360</u>	
				<u>2,851</u>	
At 1 January 2002	12	136	—	2,851	2,999
Exchange differences arising on translation of the accounts of foreign subsidiaries	—	—	(76)	—	(76)
Profit for the year	—	—	—	2,890	2,890
Issue of share capital by a subsidiary	—	2,000	—	—	2,000
Dividends	—	—	—	<u>(5,111)</u>	<u>(5,111)</u>
At 31 December 2002 and retained by subsidiaries	<u>12</u>	<u>2,136</u>	<u>(76)</u>	<u>630</u>	<u>2,702</u>
Representing:					
Proposed dividends				34	
Others				<u>596</u>	
				<u>630</u>	

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

	<u>Combined share capital (note 21)</u> US\$'000	<u>Capital reserves (note 21)</u> US\$'000	<u>Exchange reserves</u> US\$'000	<u>Retained profits</u> US\$'000	<u>Total</u> US\$'000
At 1 December 2003	12	2,136	(76)	630	2,702
Exchange differences arising on translation of the accounts of foreign subsidiaries	—	—	40	—	40
Profit for the year	—	—	—	4,382	4,382
Dividends	—	—	—	(1,355)	(1,355)
At 31 December 2003	<u>12</u>	<u>2,136</u>	<u>(36)</u>	<u>3,657</u>	<u>5,769</u>
Retained by:					
Subsidiaries	12	2,136	(36)	3,963	6,075
Jointly controlled entities	—	—	—	(306)	(306)
	<u>12</u>	<u>2,136</u>	<u>(36)</u>	<u>3,657</u>	<u>5,769</u>

(d) Combined cash flow statements

The following is a summary of the combined cash flow statements of the PBMH Group for the Relevant Periods, prepared on the basis as set out in note 1 of section II below, after making such adjustments as are appropriate:

	Note	For the year ended		
		31 December		
		2001	2002	2003
		US\$'000	US\$'000	US\$'000
Cash flows from operating activities				
Cash generated from operations	23(a)	1,972	8,098	5,992
Hong Kong profits tax paid		(380)	(48)	(224)
Overseas taxation paid		(51)	(39)	(87)
<i>Net cash from operating activities</i>		<u>1,541</u>	<u>8,011</u>	<u>5,681</u>
Cash flows from investing activities				
Purchase of fixed assets		(521)	(181)	(397)
Sale of fixed assets		4	5	12
Interest received		123	129	139
Increase in investment securities		—	(200)	—
Increase in interests in jointly controlled entities		—	—	(900)
Increase in interest in an associated company		—	—	(58)
Increase in loan to a shareholder of PBMH Group		—	(2,500)	—
<i>Net cash used in investing activities</i>		<u>(394)</u>	<u>(2,747)</u>	<u>(1,204)</u>
Cash flows from financing activities				
Capital contributions by a minority shareholder	23(b)	—	1,000	—
Issue of share capital by a subsidiary	23(b)	—	2,000	—
Dividends paid to a minority shareholder	23(b)	(22)	(810)	(660)
Dividends paid		(1,337)	(5,111)	(1,355)
<i>Net cash used in financing activities</i>		<u>(1,359)</u>	<u>(2,921)</u>	<u>(2,015)</u>
Net (decrease)/increase in cash and cash equivalents		(212)	2,343	2,462
Cash and cash equivalents at 1 January		<u>3,518</u>	<u>3,306</u>	<u>5,649</u>
Cash and cash equivalents at 31 December		<u>3,306</u>	<u>5,649</u>	<u>8,111</u>

(II) NOTES TO THE COMBINED FINANCIAL STATEMENTS**1 Basis of combination**

The accompanying combined profit and loss accounts and combined cash flow statements of the PBMH Group for the Relevant Periods include financial information of the companies now comprising the PBMH Group as if the current structure of the PBMH Group had been in existence throughout the Relevant Periods, or since their respective dates of incorporation to 31 December 2003, whichever is the shorter period.

The combined balance sheets of the PBMH Group as at 31 December 2001, 2002 and 2003, have been prepared to present the financial position of the PBMH Group as at these dates as if the current structure of the PBMH Group had been in existence since 1 January 2001.

All significant intra-group transactions and balances have been eliminated on combination.

2 Principal accounting policies

The Financial Information set out in this report has been prepared based on the policies described below which are in accordance with accounting principles generally accepted in Hong Kong and comply with accounting standards issued by the Hong Kong Society of Accountants. It has been prepared under the historical cost convention.

(a) Subsidiaries

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

(b) Joint ventures***(i) Jointly controlled entities***

A jointly controlled entity is a contractual arrangement whereby one party and other parties undertake an economic activity which is subject to joint control and none of the participating parties has unilateral control over the economic activity.

The combined profit and loss account includes the PBMH Group's share of the results of jointly controlled entities for the Relevant Periods, and the combined balance sheet includes the PBMH Group's share of the net assets of the jointly controlled entities and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

(ii) Jointly controlled operation

A jointly controlled operation is a contractual arrangement whereby the PBMH Group and other parties combine their operations, resources and expertise to undertake an economic activity in which each party takes a share of the revenue and costs in the economic activity, such share being determined in accordance with the contractual arrangement.

In respect of the PBMH Group's interests in jointly controlled operation, the combined profit and loss account includes the PBMH Group's share of expenses that jointly controlled operation incurred and the PBMH Group's share of income earned from jointly controlled operation during the Relevant Periods.

(c) Associated companies

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

The combined profit and loss account includes the PBMH Group's share of the results of associated company for the Relevant Periods, and the combined balance sheet includes the PBMH Group's share of the net assets of the associated company and goodwill/negative goodwill (net of accumulated amortisation) on acquisition.

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

(d) Minority interests

Minority interests represent the interests of outside shareholders in the operating results and net assets of subsidiaries.

(e) Translation of foreign currencies

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

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

(f) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the PBMH Group's share of the net assets of the acquired jointly controlled entities at the date of acquisition.

Goodwill on acquisitions is presented as part of the interests in jointly controlled entities and amortised using the straight-line method over its estimated useful lives of 15 years.

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

(g) Fixed assets

Fixed assets are stated at cost less accumulated depreciation and accumulated impairment losses. Fixed assets are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The estimated useful lives are summarised as follows:

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

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

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

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

(h) Operating leases

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

(i) Investment securities

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

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

(j) Inventories

Inventories including bunkers and marine products, are stated at the lower of cost and net realisable value. Cost is calculated on first-in first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Provision for

inventories is made against specific items when they are considered to be slow moving or obsolete.

(k) Accounts receivable

Provision is made against accounts receivable to the extent they are considered to be doubtful. Accounts receivable in the combined balance sheet are stated net of such provision.

(l) Cash and cash equivalents

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

(m) Provisions

Provisions are recognised when the PBMH Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount can be made. Where the PBMH Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(n) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Bonus

Provision for bonus due wholly within twelve months after balance sheet date are recognised when the PBMH Group has a present legal or constructive obligation as a result of services rendered by employees and a reliable estimate of the obligation can be made.

(iii) Retirement benefit obligations

The PBMH Group operates a number of defined benefit and defined contribution retirement schemes throughout the Relevant Periods, the assets of which are generally held in separate trustee-administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant PBMH Group companies, taking account of the recommendations of independent qualified actuaries, or the contribution rates according to the statutory requirements.

Defined benefit retirement schemes

Pension costs are assessed using the projected unit credit method: the cost of providing pensions is charged to the combined profit and loss account so as to spread the regular cost over the service lives of employees in accordance with the advice of the qualified actuaries

who carry out a full valuation of the schemes each year. The pension assets are measured at fair value and the pension obligations are measured as the present value of the estimated future cash outflows by reference to market yields on high quality corporate bonds which have terms to maturity approximating the terms of related liability. Actuarial gains and losses to the extent of the amounts in excess of 10% of the greater of the present value of the scheme obligations and the fair value of scheme assets are recognised over the average remaining service lives of employees. Past service costs are recognised as expense on a straight-line basis over the average period until the benefits become vested.

The PBMH Group's contributions to defined benefits pension plans are charged to the profit and loss account in the period to which the contributions relate.

Defined contribution retirement scheme

The PBMH Group's contributions to the defined contribution retirement scheme are expensed as incurred and are reduced by contributions forfeited by those employees who leave the scheme prior to vesting fully in the contribution.

(o) Deferred taxation

Deferred taxation is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the accounts. Taxation rates enacted or substantively enacted by the balance sheet date are used to determine deferred taxation.

Deferred tax assets are recognised to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

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

(p) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the PBMH Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably.

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

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain events not wholly within the control of the PBMH Group.

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

(q) Revenue recognition

Revenues from the provision of commercial, technical and pool management services are recognised when the services are rendered.

Revenues from the sale of marine products are recognised on the transfer of risks and rewards of ownership, which generally coincides with the time when the goods are delivered to customers and title has passed. Revenues from provision of marine services are recognised when services are rendered.

Charter-hire income from vessels under pooling arrangement is calculated based on their share of the pool's earnings and recognised on an accrual basis.

Income from time charter is recognised on a time proportion basis.

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

(r) Segment reporting

A segment is a distinguishable component of the PBMH Group that is engaged either in providing products or services (business segment), or in providing products or services with a particular economic environment (geographical segment), which is subject to risks and rewards that are different from those of other segments.

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

Segment capital expenditure represents the total cost incurred during the year to acquire fixed assets that are expected to be used for more than one period.

Segment revenues, expenses, results, assets and liabilities include items directly attributable to a segment performance include transactions between segments. Inter-segment pricing is on similar terms as those available to unaffiliated customers for similar services. These transactions (if any) are eliminated upon combination.

In respect of geographical segment reporting, sales are based on the country in which the customer is located and total assets and capital expenditure are where the assets are located.

(s) Related parties

Related parties are those parties which have the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or under significant influence by common parties.

3 Turnover, revenues and segment information

The PBMH Group is principally engaged in the provision of commercial and technical management services, marine consultancy services and vessel chartering services and acts as pool manager for the International Handybulk Carriers Pool (the "IHC Pool"). Revenues recognised during the Relevant Periods are as follows:

	Year ended 31 December		
	2001 US\$'000	2002 US\$'000	2003 US\$'000
Turnover			
Commercial management fees	6,371	5,565	9,507
Technical management fees and marine services income	8,528	10,862	11,426
Pool management income	120	1,347	2,345
Charter-hire and related income	—	368	7,705
	<u>15,019</u>	<u>18,142</u>	<u>30,983</u>
Other revenues			
Interest income from			
related companies	65	117	134
bank deposits	58	12	5
Sundry incomes	<u>422</u>	<u>263</u>	<u>287</u>
	<u>545</u>	<u>392</u>	<u>426</u>
Total revenues	<u>15,564</u>	<u>18,534</u>	<u>31,409</u>

(a) Primary reporting format — business segments

The PBMH Group has categorised its businesses into four main business segments:

(i) Commercial management services

Provision of commercial management services.

(ii) Technical management and marine services

Provision of technical management, vessel surveying, manning services and trading of marine products.

(iii) Pool management services

The PBMH Group acts as pool manager for vessels that have joined the IHC Pool, from which pool management income is earned.

(iv) Charter-hire and related services

Provision of chartering of vessels and related services.

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

As at and for the year ended 31 December 2001					
	Commercial management services	Technical management and marine services	Pool management services	Charter-hire and related services	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Turnover					
External sales	<u>6,371</u>	<u>8,528</u>	<u>120</u>	<u>—</u>	<u>15,019</u>
Segment results	2,531	1,109	—	—	3,640
Unallocated costs					—
Profit before taxation					3,640
Taxation					(349)
Profit after taxation					3,291
Minority interests					(320)
Profit for the year					<u>2,971</u>
Assets					
Segment assets	2,813	6,203	3,089	—	12,105
Liabilities					
Segment liabilities	706	4,921	3,089	—	8,716
Other information					
Capital expenditure	221	300	—	—	521
Depreciation	<u>39</u>	<u>115</u>	<u>—</u>	<u>—</u>	<u>154</u>

As at and for the year ended 31 December 2002					
	Commercial management services	Technical management and marine services	Pool management services	Charter-hire and related services	Total
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Turnover					
External sales	<u>5,565</u>	<u>10,862</u>	<u>1,347</u>	<u>368</u>	<u>18,142</u>
Segment results	1,314	3,165	—	7	4,486
Unallocated costs					—
Profit before taxation					4,486
Taxation					(632)
Profit after taxation					3,854
Minority interests					(964)
Profit for the year					<u>2,890</u>
Assets					
Segment assets	895	10,852	5,883	1,319	18,949
Liabilities					
Segment liabilities	914	6,212	5,883	1,692	14,701
Other information					
Capital expenditure	50	131	—	—	181
Depreciation	<u>84</u>	<u>124</u>	<u>—</u>	<u>—</u>	<u>208</u>

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

	As at and for the year ended 31 December 2003				Total
	Commercial management services	Technical management and marine services	Pool management services	Charter-hire and related services	
	US\$'000	US\$'000	US\$'000	US\$'000	
Turnover					
External sales	<u>9,507</u>	<u>11,426</u>	<u>2,345</u>	<u>7,705</u>	<u>30,983</u>
Segment results	1,703	3,419	243	1,088	6,453
Unallocated costs					—
Operating profit					6,453
Share of profits less losses of jointly controlled entities ...	—	(306)	—	—	<u>(306)</u>
Profit before taxation					6,147
Taxation					<u>(918)</u>
Profit after taxation					5,229
Minority interests					<u>(847)</u>
Profit for the year					<u>4,382</u>
Assets					
Segment assets	5,698	13,051	14,130	1,892	34,771
Interests in jointly controlled entities	400	194	—	—	594
Interest in an associated company	58	—	—	—	<u>58</u>
Total assets					<u>35,423</u>
Liabilities					
Segment liabilities	4,767	8,047	13,928	1,178	<u>27,920</u>
Other information					
Capital expenditure	204	193	—	—	397
Depreciation	<u>97</u>	<u>150</u>	<u>—</u>	<u>—</u>	<u>247</u>

(b) Secondary reporting format — geographical segments

The PBMH Group's businesses operate in the following geographical areas:

- (i) Hong Kong
- (ii) International transportation and logistics
- (iii) United Kingdom
- (iv) Others

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

Turnover, segment results, total assets and capital expenditure related to international transportation and logistics is related to income generated from ship chartering services, which is carried out internationally, and the assets and results of related operations are not limited to specific parts of the world. Accordingly, geographical segment results for international transportation and logistics segment are not presented.

	<u>As at and for the year ended 31 December 2001</u>			
	<u>Total turnover</u>	<u>Segment results</u>	<u>Total assets</u>	<u>Capital expenditure</u>
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Hong Kong	12,331	3,616	9,153	393
International transportation and logistics business	—	—	1,887	—
United Kingdom	1,154	110	287	89
Others	<u>1,534</u>	<u>(86)</u>	<u>778</u>	<u>39</u>
	<u>15,019</u>	<u>3,640</u>	<u>12,105</u>	<u>521</u>

	<u>As at and for the year ended 31 December 2002</u>			
	<u>Total turnover</u>	<u>Segment results</u>	<u>Total assets</u>	<u>Capital expenditure</u>
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Hong Kong	14,776	4,263	11,398	143
International transportation and logistics business	368	7	6,666	—
United Kingdom	1,848	257	403	9
Others	<u>1,150</u>	<u>(41)</u>	<u>482</u>	<u>29</u>
	<u>18,142</u>	<u>4,486</u>	<u>18,949</u>	<u>181</u>

	<u>As at and for the year ended 31 December 2003</u>			
	<u>Total turnover</u>	<u>Segment results</u>	<u>Total assets</u>	<u>Capital expenditure</u>
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Hong Kong	19,026	4,918	18,022	280
International transportation and logistics business	7,705	1,088	15,487	—
United Kingdom	2,938	265	341	61
Others	<u>1,314</u>	<u>182</u>	<u>921</u>	<u>56</u>
	<u>30,983</u>	<u>6,453</u>	<u>34,771</u>	<u>397</u>
Jointly controlled entities			594	
An associated company			<u>58</u>	
Total assets			<u>35,423</u>	

4 Operating profit

Operating profit is stated after crediting and charging the following:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Crediting			
Net exchange gains	29	—	—
Charging			
Auditors' remuneration	62	66	68
Depreciation	154	208	247
Operating lease rental on			
— land and buildings	559	450	480
— vessels	—	353	6,340
Staff costs, including Directors' remuneration (note 8)	6,947	8,296	13,245
Loss on disposal of fixed assets	16	3	1
Net exchange losses	—	164	15

5 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2001 and 2002: 16%) on the estimated assessable profit for the year ended 31 December 2003. In 2003, the government enacted a change in the profits tax rate from 16% to 17.5% for the fiscal year 2003/2004. Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the PBMH Group operates.

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

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Current taxation			
— Hong Kong profits tax	331	503	673
— Overseas tax	46	74	117
— (Over)/under provisions in prior years	(28)	43	121
Deferred taxation relating to the origination and reversal of temporary differences (note 22)	—	12	6
Deferred taxation resulting from an increase in tax rate (note 22)	—	—	1
	<u>349</u>	<u>632</u>	<u>918</u>

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

The taxation on the PBMH Group's profit before taxation differs from the theoretical amount that would arise using the weighted average taxation rate of the countries in which the companies now comprising the PBMH Group operates are as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Profit before taxation	3,640	4,486	6,147
Calculated at a weighted average taxation rate of 16% (2001: 15%, 2002: 14%)	530	634	986
Income not subject to taxation	(184)	(54)	(562)
Expenses not deductible for taxation purposes	31	9	372
(Over)/under provisions in prior years	(28)	43	121
Increase in opening net deferred tax liabilities resulting from an increase in tax rate	—	—	1
Taxation charge	<u>349</u>	<u>632</u>	<u>918</u>

6 Dividends

No dividend has been paid or declared by PBMHL since its incorporation. Dividends declared during the Relevant Periods represented dividends declared by subsidiaries of PBMHL to its then shareholders for the year ended 31 December 2001, 2002 and 2003.

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Interim dividend paid:			
Pacific Basin Shipping & Trading Co. Limited	—	1,000	—
IndoChina Ship Management Holdings Limited	—	1,620	1,321
Final dividend proposed:			
Pacific Basin Shipping (HK) Limited (formerly Pacific Basin Agencies Limited)	25	34	—
Pacific Basin Chartering Limited	—	—	—
Pacific Basin (UK) Limited	70	—	—
PBST Co. Ltd	<u>2,396</u>	<u>—</u>	<u>—</u>
	<u>2,491</u>	<u>2,654</u>	<u>1,321</u>

The rates of dividend and the number of shares ranking for dividends are not presented as such information is not meaningful having regard to the purpose of this report.

The proposed dividend is not reflected as dividend payable in these amounts, but will be reflected as appropriation of related earnings for the year ended 31 December 2001 and 2002.

7 Earnings per share

No earnings per share information is presented as its inclusion would be hypothetical due to the reorganisation and preparation of the results on a combined basis, as discussed in note 1.

8 Staff costs, including Directors' emoluments

(a) Staff cost for the Relevant Periods

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Wages and salaries	6,663	7,983	12,762
Retirement benefit costs			
defined benefits retirement schemes (note 14)	156	150	264
defined contribution retirement schemes	128	163	219
	<u>6,947</u>	<u>8,296</u>	<u>13,245</u>

(b) Share options

Pursuant to the share option scheme adopted on 16 May 2003 (the "Share Option Scheme") by Pembroke Shipping Limited (formerly Pacific Basin Shipping Limited (BVI)) ("Pembroke"), a shareholder of the PBMH Group, the Remuneration Committee may at their discretion, invite full-time employees, including Directors, to take up options to subscribe for the shares of Pembroke.

As at 31 December 2003, a total of 11 directors and employees of PBMHL and continuous contract employees of the PBMH Group had a total of 600 share options at an exercise price per share of US\$3,400 exercisable from 16 May 2004 to 6 June 2013 granted by Pembroke under the Share Option Scheme. As at 31 December 2003, no option has been exercised.

9 Directors' and senior management's emoluments

(a) Details of the emoluments paid and payable to the Directors during the Relevant Periods are as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Fees	—	—	—
Salaries, allowances and benefits in kind	846	875	1,424
Bonus	—	—	808
Retirement benefit costs	8	21	70
	<u>854</u>	<u>896</u>	<u>2,302</u>

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

Additional amounts of emolument paid to the Directors, which were borne by Pembroke, were US\$nil (2001: US\$400,000; 2002: US\$500,000) for the year ended 31 December 2003.

The emoluments of the Directors fell into the following bands:

	Number of Directors Year ended 31 December		
	2001	2002	2003
Emolument bands			
US\$128,206 – US\$192,308 (HK\$1,000,001 – HK\$1,500,000)	—	—	—
US\$192,309 – US\$256,410 (HK\$1,500,001 – HK\$2,000,000)	1	1	—
US\$256,411 – US\$320,513 (HK\$2,000,001 – HK\$2,500,000)	1	—	—
US\$320,514 – US\$384,615 (HK\$2,500,001 – HK\$3,000,000)	1	2	—
US\$384,616 – US\$705,128 (HK\$3,000,001 – HK\$5,500,000)	—	—	—
US\$705,128 – US\$769,231 (HK\$5,500,001 – HK\$6,000,000)	—	—	2
US\$769,231 – US\$833,333 (HK\$6,000,001 – HK\$6,500,000)	—	—	—
US\$833,334 – US\$897,436 (HK\$6,500,001 – HK\$7,000,000)	—	—	1
	<u>3</u>	<u>3</u>	<u>3</u>

(b) The five individuals whose emoluments were the highest in the PBMH Group for the years ended 31 December 2001, 2002 and 2003 include three Directors (2001 and 2002: three Directors) of PBMHL, whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two employees (2001 and 2002: two employees) during the year were as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Salaries, allowances and benefits in kind	295	444	797
Retirement benefit costs	<u>29</u>	<u>17</u>	<u>—</u>
	<u>324</u>	<u>461</u>	<u>797</u>

The emoluments of the remaining 2 (2001 and 2002: 2) highest paid employee fell into the following bands:

	Number of individuals Year ended 31 December		
	2001	2002	2003
Emolument bands			
US\$128,206 – US\$192,308 (HK\$1,000,001 – HK\$1,500,000) . . .	2	1	—
US\$192,309 – US\$256,410 (HK\$1,500,001 – HK\$2,000,000) . . .	—	—	1
US\$256,411 – US\$320,513 (HK\$2,000,001 – HK\$2,500,000) . . .	—	1	—
US\$320,514 – US\$576,923 (HK\$2,500,001 – HK\$4,500,000) . . .	—	—	—
US\$576,924 – US\$641,026 (HK\$4,500,001 – HK\$5,000,000) . . .	—	—	1
	<u>2</u>	<u>2</u>	<u>2</u>

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

(c) During the Relevant Periods, no emoluments have been paid by the PB Management Group to the five highest paid individuals as an inducement to join or upon joining the PB Management Group or as compensation for loss of office. No Directors waived or agreed to waive any emoluments during the Relevant Periods.

10 Fixed assets

	<u>Leasehold improvements</u>	<u>Furniture, fixtures and equipment</u>	<u>Motor vehicles</u>	<u>Total</u>
	US\$'000	US\$'000	US\$'000	US\$'000
Cost				
At 1 January 2001	13	622	52	687
Exchange differences	—	8	—	8
Additions	327	194	—	521
Disposals	<u>(83)</u>	<u>(29)</u>	<u>—</u>	<u>(112)</u>
At 31 December 2001	257	795	52	1,104
Exchange differences	1	10	2	13
Additions	27	154	—	181
Disposals	<u>—</u>	<u>(46)</u>	<u>(26)</u>	<u>(72)</u>
At 31 December 2002	285	913	28	1,226
Exchange differences	—	12	(2)	10
Additions	98	299	—	397
Disposals	<u>(19)</u>	<u>(22)</u>	<u>(26)</u>	<u>(67)</u>
At 31 December 2003	<u>364</u>	<u>1,202</u>	<u>—</u>	<u>1,566</u>
Accumulated depreciation				
At 1 January 2001	6	480	10	496
Exchange differences	—	5	—	5
Charge for the year	119	22	13	154
Disposals	<u>(78)</u>	<u>(14)</u>	<u>—</u>	<u>(92)</u>
At 31 December 2001	47	493	23	563
Exchange differences	1	6	1	8
Charge for the year	53	144	11	208
Disposals	<u>—</u>	<u>(45)</u>	<u>(19)</u>	<u>(64)</u>
At 31 December 2002	101	598	16	715
Exchange differences	—	3	(1)	2
Charge for the year	77	169	1	247
Disposals	<u>(18)</u>	<u>(20)</u>	<u>(16)</u>	<u>(54)</u>
At 31 December 2003	<u>160</u>	<u>750</u>	<u>—</u>	<u>910</u>
Net book value				
At 31 December 2001	<u>210</u>	<u>302</u>	<u>29</u>	<u>541</u>
At 31 December 2002	<u>184</u>	<u>315</u>	<u>12</u>	<u>511</u>
At 31 December 2003	<u>204</u>	<u>452</u>	<u>—</u>	<u>656</u>

11 Interests in joint ventures**(a) Jointly controlled entities**

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Share of net assets	—	—	194
Loan to a jointly controlled entity (note i)	—	—	400
	<u>—</u>	<u>—</u>	<u>594</u>

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

Details of the jointly controlled entities at 31 December 2003 are as follows:

Name	Country and date of incorporation	Issued and fully paid up share capital	Attributable equity interests held	Principal activity and place of operation
<i>Shares held indirectly:</i>				
IndoChina Ship Management (UK) Limited (formerly Lothian Ship Management Limited) . .	The United Kingdom 6 October 1998	50 class A shares of GBP1 each 50 class B shares of GBP1 each 1 class C share of GBP1 each	33.33%	Provision of ship management services in the United Kingdom
Pacific Basin Logistics Limited (formerly IHC Logistics Limited)	The British Virgin Islands 2 June 2003	4 shares of US\$1 each	50%	Vessels chartering in Hong Kong

On 30 March 2004, the PBMH Group disposed of its interests in IndoChina Ship Management (UK) Limited to Pembroke. The consideration was determined by reference to the Group's carrying value of interest in IndoChina Ship Management (UK) Limited.

(b) Jointly controlled operations

During 2003, the PBMH Group entered into contractual arrangements with Helen Shipping Limited, for chartering in three vessels and with Bocimar Far East Holdings Limited and AS Dampskibsselskabet TORM for chartering in one vessel. Under the contractual arrangements, charter-hire income and expenses from chartering in these vessels are shared equally among the relevant parties.

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

In respect of the PBMH Group's interests in the jointly controlled operation, the aggregate amounts of profit and loss recognised are as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Charter-hire income included in turnover	—	—	4,312
Charter-hire expenses included in direct costs	—	—	(3,145)
	<u>—</u>	<u>—</u>	<u>1,167</u>

12 Interest in an associated company

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Share of net assets	—	—	—
Amount due from an associated company	—	—	58
	<u>—</u>	<u>—</u>	<u>58</u>

Details of the associated company at 31 December 2003 are as follows:

<u>Name</u>	<u>Country and date of incorporation</u>	<u>Issued and fully paid up share capital</u>	<u>Attributable equity interests directly held</u>	<u>Principal activity and place of operation</u>
The London Shipping Consultancy Limited	The United Kingdom 6 December 2002	100 shares of GBP1 each	49%	Provision of ship consultancy services in the United Kingdom

13 Investment securities

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Unlisted equity securities, at cost	—	200	200
	<u>—</u>	<u>200</u>	<u>200</u>

14 Pension assets

The PBMH Group's major retirement schemes are defined benefits retirement schemes in Hong Kong. The assets of the funded schemes are held independently of the PBMH Group's assets in separate trustee-administered funds. The PBMH Group's major schemes are valued by a qualified actuary, Watson Wyatt Hong Kong Limited, annually using the projected unit credit method.

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

The amounts recognised in the combined balance sheet, which are limited to the present value of economic benefits available to the PBMH Group are determined as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Present value of funded obligations	(2,353)	(1,895)	(2,073)
Fair value of scheme assets	2,172	1,356	2,205
	(181)	(539)	132
Unrecognised actuarial losses/(gains)	188	613	(16)
Assets in the combined balance sheet	7	74	116

The limit of pension assets to be recognised as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Cumulative unrecognised net actuarial losses and past service cost	188	613	—
Present value of available future refunds and reductions in future contributions	—	—	132
	188	613	132

The amounts recognised in the combined profit and loss account were as follows:

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Current service cost	156	141	214
Interest cost	158	137	111
Expected return on scheme assets	(158)	(128)	(104)
Net actuarial losses recognised	—	—	43
Total, included in staff costs (note 8)	156	150	264

The actual return on scheme assets recognised as an asset was approximately US\$494,000 (2001: loss of US\$110,000; 2002: loss of US\$147,000).

Movements in the assets recognised in the combined balance sheet:

	2001	2002	2003
	US\$'000	US\$'000	US\$'000
At 1 January	(3)	7	74
Total expenses — as shown above	(156)	(150)	(264)
Contributions paid	166	217	306
At 31 December	7	74	116

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

The principal actuarial assumptions used were as follows:

	<u>2001</u>	<u>2002</u>	<u>2003</u>
Discount rate	7.5%	6.0%	5.5%
Expected rate of return on scheme assets	7.0%	7.0%	6.0%
Expected rate of future salary increases	<u>6.0%</u>	<u>6.0%</u>	<u>5.0%</u>

15 Loan to a shareholder of PBMHL

Loan to Pembroke, a shareholder of PBMHL, amounting to US\$2,500,000 (2001: US\$nil; 2002: US\$2,500,000) is secured by the dividends payable to it and bears interest at a rate of 3 month's London Inter-bank Offered Rate ("LIBOR") plus 2.5% per annum. Pursuant to the Reorganisation, US\$1,700,000 of loans to Pembroke are waived by the PBMH Group on 29 March 2004 and the remaining balances are repayable within one year.

16 Inventories

	<u>As at 31 December</u>		
	<u>2001</u>	<u>2002</u>	<u>2003</u>
	<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Bunkers and marine products	<u>1,302</u>	<u>2,747</u>	<u>3,471</u>

Marine products carried at net realisable value amounted to US\$72,000, US\$124,000 and US\$98,000 as at 31 December 2001, 2002 and 2003 respectively.

17 Amounts due from/to related companies

	<u>2001</u>	<u>2002</u>	<u>2003</u>
	US\$'000	US\$'000	US\$'000
Amounts due from related companies			
A shareholder of PBMHL:			
Pembroke	967	—	167
A jointly controlled entity:			
Pacific Basin Logistics Limited	—	—	309
Other related companies:			
Cleaves & Company Limited	—	444	—
Jardine, Matheson & Co., Limited (note a)	2,138	648	4,681
Initial Companies (note c)	—	66	69
Keswick Holdings Limited	—	—	75
Foreview Holdings Limited	—	—	51
Beckley Enterprises Limited	—	—	5
Eastern Venture Corporation	—	—	41
Mayo (HK) Limited	—	—	667
	<u>3,105</u>	<u>1,158</u>	<u>6,065</u>
Amounts due to related companies			
A shareholder of PBMHL:			
Pembroke	—	1,193	—
Other related companies:			
Initial Companies (note c)	719	1,447	2,252
New Majestic International Limited	—	—	2,128
Beckley Enterprises Limited	—	—	112
Foreview Holdings Limited	—	—	112
Pacific Basin Bulker (No. 101) Company Limited	100	100	—
	<u>819</u>	<u>2,740</u>	<u>4,604</u>

Notes:

- (a) Amount due from Jardine, Matheson & Co., Limited is unsecured, bears interest at a range from 0.01% to 2.62% (2001: 1.74% to 5.8%; 2002: 1.42% to 1.73%) per annum and the amount was fully settled in April 2004.
- (b) The remaining balances are unsecured, interest free and have no fixed terms of repayment.
- (c) Initial Companies has the same meanings as defined in the Prospectus.
- (d) In the opinion of Directors of the PBMH Group, the balances with related companies arose from ordinary and normal course of business of the PBMH Group.

18 Trade and other receivables

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Trade receivables	1,937	2,795	7,601
Prepayments and other receivables	1,407	2,815	2,647
	<u>3,344</u>	<u>5,610</u>	<u>10,248</u>

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

The ageing analysis of the trade receivables is as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Within 30 days	1,346	1,728	4,201
31 - 60 days	325	431	1,570
61 - 90 days	116	222	431
Over 90 days	150	414	1,399
	<u>1,937</u>	<u>2,795</u>	<u>7,601</u>

19 Pledged bank deposits

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Pledged bank deposits in connection with:			
Forward exchange facility (note a)	—	—	130
Forward exchange commitment (note b)	—	—	3,274
Others (note c)	500	500	—
	<u>500</u>	<u>500</u>	<u>3,404</u>

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

(b) The amounts were pledged in favour of banks in respect of forward exchange contract commitments, which will mature within one year (note 24c).

(c) The amount was held as security with a bank in connection with management agreements with clients.

20 Trade and other payables

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Trade payables	293	546	1,249
Accrued charges and other payables	7,126	10,392	20,437
	<u>7,419</u>	<u>10,938</u>	<u>21,686</u>

The ageing analysis of the trade payables was as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Within 30 days	258	291	709
31 - 60 days	25	48	142
61 - 90 days	10	27	—
Over 90 days	—	180	398
	<u>293</u>	<u>546</u>	<u>1,249</u>

21 Share capital and capital reserves

PBMHL was incorporated in the British Virgin Islands on 28 November 2003. In March 2004, PBMHL became the holding company of the PBMH Group through a share exchange, and accordingly, combined share capital and capital reserves as at 31 December 2001, 2002 and 2003 represented the share capital and share premium of PBMHL and subsidiaries comprising the PBMH Group. Issue of share capital represented contribution made by the then shareholders of the subsidiaries prior to the Reorganisation.

22 Deferred tax liabilities

Deferred taxation are calculated in full on temporary differences under the liability method using a principal taxation rate of 17.5% (2001 and 2002: 16%).

The movement on the deferred tax liabilities account in respect of pension assets is as follows:

	As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
At 1 January	—	—	12
Deferred taxation charged to combined profit and loss account (note 5)	—	12	7
At 31 December	<u>—</u>	<u>12</u>	<u>19</u>

The amounts are to be settled after more than 12 months and there is no material unprovided deferred taxation for the Relevant Periods.

23 Notes to the combined cash flow statement

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

	Year ended 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Profit before taxation	3,640	4,486	6,147
Share of profits less losses of jointly controlled entities	—	—	306
Interest income	(123)	(129)	(139)
Depreciation	154	208	247
Loss on disposal of fixed assets	16	3	1
Exchange gains/(losses)	2	(79)	33
Operating profit before working capital changes	3,689	4,489	6,595
Increase in pension assets	(7)	(67)	(42)
Increase in trade and other receivables	(1,446)	(2,266)	(4,638)
Increase in trade and other payables	3,575	3,519	10,748
Increase in inventories	(793)	(1,445)	(724)
(Increase)/decrease in balances with related companies	(2,546)	3,868	(3,043)
Increase in pledged deposits	(500)	—	(2,904)
Cash generated from operations	<u>1,972</u>	<u>8,098</u>	<u>5,992</u>

(b) Analysis of changes in financing during the Relevant Periods:

	2001		2002		2003	
	Minority interests	Combined share capital and capital reserve	Minority interests	Combined share capital and capital reserve	Minority interests	Combined share capital and capital reserve
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
At 1 January	91	148	390	148	1,546	2,148
Exchange differences	1	—	2	—	1	—
Minority interests' share of profit	320	—	964	—	847	—
Dividends paid to a minority shareholder	(22)	—	(810)	—	(660)	—
Issue of share capital by a subsidiary	—	—	—	2,000	—	—
Capital contributions by a minority shareholder	—	—	1,000	—	—	—
At 31 December	<u>390</u>	<u>148</u>	<u>1,546</u>	<u>2,148</u>	<u>1,734</u>	<u>2,148</u>

24 Commitments

(a) Commitments under operating leases where the PBMH Group is the lessee:

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

	Land and buildings As at 31 December			Vessels As at 31 December		
	2001	2002	2003	2001	2002	2003
	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000	US\$'000
Not later than one year	371	503	581	—	3,846	12,883
Later than one year and not later than five years	<u>61</u>	<u>468</u>	<u>239</u>	<u>—</u>	<u>4,897</u>	<u>12,078</u>
	<u>432</u>	<u>971</u>	<u>820</u>	<u>—</u>	<u>8,743</u>	<u>24,961</u>

Pursuant to charter-hire agreements for vessels under the above operating leases, an option has been granted to the PBMH Group to acquire one of these vessels at the price stipulated in the relevant agreement. This option is exercisable at any time during the lease term.

(b) Commitments under operating leases where the PBMH Group is the lessor:

At 31 December 2003, the PBMH Group had future aggregate minimum lease receivables under non-cancellable operating leases as follows:

	Vessels As at 31 December		
	2001	2002	2003
	US\$'000	US\$'000	US\$'000
Not later than one year	<u>2,447</u>	<u>9,702</u>	<u>19,350</u>

(c) At 31 December 2003, the PBMH Group had outstanding forward exchange contracts (2001 and 2002: nil) with banks to buy approximately Yen3,140,650,000 and simultaneously sell approximately US\$27,753,000 to the bank, which will mature within one year. The commitments were entered to hedge for foreign currency commitments in connection with vessel acquisition transactions of Good Future International Holdings Limited and Mayo (HK) Limited, both related companies.

25 Related party transactions

Other than as disclosed elsewhere in the combined financial statements, the PBMH Group has entered into the following significant transactions with related parties during the Relevant Periods:

Nature of transactions	Name of related parties	As at 31 December		
		2001	2002	2003
		US\$'000	US\$'000	US\$'000
Supervisory fee to:	— Pembroke (note a and l)	(1,380)	(1,065)	(1,270)
Management fee expenses to:	— Pembroke (note b and l)	—	(179)	(299)

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

<u>Nature of transactions</u>	<u>Name of related parties</u>	<u>As at 31 December</u>		
		<u>2001</u>	<u>2002</u>	<u>2003</u>
		<u>US\$'000</u>	<u>US\$'000</u>	<u>US\$'000</u>
Charter-hire expenses to:	— Frenchay Group (note c)	—	(353)	(3,196)
Travelling expenses paid to:	— Jardine Travel Limited (note d)	414	313	400
Insurance premium paid to:	— Jardine Lloyd Thompson Limited (note d)	612	707	337
Agency and management fee income from:	— Initial Companies (note e)	56	572	962
	— Vessel Companies (note e)	—	—	78
Technical management fee income from related companies:	— Initial Companies (note f)	347	1,117	1,270
	— Vessel Companies (note f)	—	—	94
Supervisory fee from:	— Initial Companies (note a)	1,380	1,065	1,270
Agency fee from:	— Pembroke (note g and l)	1,297	450	689
	— Epic Shipping (BVI) Limited (formerly Eastern Product Carriers Limited) (note g)	—	346	477
Advisory fee from:	— Pembroke (note h and l)	959	1,614	2,480
Sales commission and manager's reward income from:	— Pacific Basin Bulker (No. 101) Company Limited (note i)	—	—	642
	— Pacific Basin Bulker (No. 102) Company Limited (note i)	—	284	—

Notes:

In the opinion of Directors, the above related party transactions were carried out in the normal course of business of the PBMH Group on normal commercial terms as disclosed below. Terms used in this report should have the same meanings as defined in the Prospectus

- (a) Pursuant to supervisory agreements entered into between Initial Companies and Pacific Basin Supervisory Limited, a subsidiary of the PBMH Group, supervisory fee was charged by Pacific Basin Supervisory Limited for the provision of supervisory services to the vessels of the Initial Companies. The supervisory fees were fully absorbed by the shareholders of the IDB Group during the Relevant Periods.

In return, supervisory fee of the same amount was paid to Pembroke pursuant to a management agreement in which Pembroke provided management service to Pacific Basin Supervisory Limited, a subsidiary of the PBMH Group.

- (b) Effective from 1 January 2002, a management fee was charged by Pembroke at 10% of the net results of PBMH Group's ship management and manning service business.
- (c) Pursuant to charter-hire agreements with Westerleigh Shipping Limited, Redcliffe Shipping Limited and Kingswood Shipping Limited, subsidiaries of the Frenchay Group, charter-hire was paid to the Frenchay Group for vessels chartered in. John Gordon Davis, a director of Pembroke, and Anthony Foster, former director of Pembroke, were directors of Frenchay Shipping Limited.
- (d) Travelling expenses and insurance premium paid to related companies were conducted at terms no less favourable than terms available to independent third parties.
- (e) During the Relevant Periods, individual vessels of the Initial Companies and vessels of other related companies as indicated above, joined International Handybulk Carriers Pool ("the IHC Pool") and entered into accession agreements with International Handybulk Carriers Management Limited (the "Pool Manager"), a subsidiary of the PBMH Group, which provided management services to the IHC Pool and in return an agency fee at 1.25% of the IHC Pool's charter-hire income and a daily management fee of US\$50 per vessel were received. The IHC Pool employed vessels of Initial Companies and other related companies under accession agreements, whereby the Initial Companies and other related companies received charter-hire income in respect of their pooled vessels based on their share of the IHC Pool's earnings. Charter-hire consideration paid by the IHC Pool to IDB and other related companies amounted to approximately US\$63,031,000 (2001: US\$7,425,000 and 2002: US\$30,295,000).

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

Agency and management fee received from the Initial Companies of US\$883,000 (2001: Nil and 2002: US\$574,000) were refunded by Pembroke, as mutually agreed between parties involved.

- (f) The PBMH Group entered into technical ship management agreements with the Initial Companies and other related companies as indicated above, whereby a prescribed monthly fee was received from the Initial Companies in connection with management services provided.
- (g) PBMH Group provided agency and management services to Pembroke and Epic Shipping (BVI) Limited (formerly Eastern Product Carriers Limited), a subsidiary of Pembroke, under which agency fee was charged at a prescribed percentage of mark up on the total overhead costs of Pacific Basin Shipping (HK) Limited, a subsidiary of the PBMH Group. The services were terminated after the Reorganisation.
- (h) An advisory fee was charged to Pembroke at a prescribed percentage of mark up on the total overhead costs of Pacific Basin (UK) Limited, a subsidiary of the PBMH Group.
- (i) Pursuant to an address commission agreement entered into between vessel owners, purchasers and the PBMH Group, sales commission, calculated at 1% of sales consideration, was paid to the PBMH Group in connection to broking and marketing services provided. For the disposal of vessels held by PB Management Pacific Basin Bulker (No. 101) Company Limited and Pacific Basin Bulker (No. 102) Company Limited, associated companies of Pembroke, for which PBMH Group is the commercial manager, manager's reward calculated at 15% of net capital gain was paid to the PBMH Group in connection with management services provided.
- (j) According to rules of the IHC Pool, deficit/surplus that arises when the aggregate of disbursements, costs, expenses and liabilities of the IHC Pool is higher/lower than its fees due to the IHC Pool Manager, is recoverable/refundable from/to the IHC Pool members. Effective from 1 October 2003, the reimbursement clause was cancelled and any gain/loss resulted from IHC Pool operation shall be retained by the IHC Pool Manager. Pool deficit recovered from/(Pool surplus refunded to) IHC Pool members was approximately (US\$17,000) (2001: US\$269,000 and 2002: US\$nil).
- (k) Forward exchange facilities line of US\$15,700,000 (2001 and 2002: US\$nil) granted to the PBMH Group was secured by a corporate guarantee of US\$2,600,000 (2002 and 2001: US\$nil) given by Pembroke.
- (l) All these agreements between PBMH Group and Pembroke have been terminated after the Reorganisation.

26 Balance sheet of PBMHL

PBMHL has not carried out any business since its incorporation on 28 November 2003, except for share exchange transactions pursuant to the Reorganisation. At 31 December 2003, PBMHL had issued one ordinary share of US\$1, nil paid. PBMHL had no reserve available for distribution to its shareholders as at 31 December 2003.

27 Subsequent events

The following significant events took place subsequent to 31 December 2003.

On 30 March 2004 and subsequently, the PBMH Group transferred its entire holding of shares in IndoChina Ship Management (UK) Limited and IndoChina Enterprises (UK) Limited and certain activities previously undertaken by the PBMH Group to Pembroke and later to Epic Shipping (BVI) Limited pursuant to a reorganisation. The results of these companies and activities for the three years ended 31 December 2003 were as follows:

	<u>2003</u>	<u>2002</u>	<u>2001</u>
	US\$'000	US\$'000	US\$'000
Turnover	1,765	1,241	955
General and administrative expenses	<u>(1,368)</u>	<u>(808)</u>	<u>(277)</u>
Operating profit	397	433	678
Share of losses of a jointly controlled entity	<u>(306)</u>	—	—
Profit before taxation	91	433	678
Taxation	<u>(127)</u>	<u>(59)</u>	<u>(18)</u>
(Loss)/profit after taxation	<u><u>(36)</u></u>	<u><u>374</u></u>	<u><u>660</u></u>

Subsequent to 31 December 2003 and up to the date of this report, interim dividend totalling US\$5,821,000 was declared by certain subsidiaries of the PBMH Group to the then shareholders.

28 Ultimate holding company

During the Relevant Periods, the Directors regard Pembroke Shipping Limited (formerly known as Pacific Basin Shipping Limited), a company incorporated in the British Virgin Islands, as being the ultimate holding company. On 31 March 2004, pursuant to the Reorganisation, Pacific Basin Shipping Limited, a company incorporated in Bermuda, becomes the ultimate holding company of the PBMH Group.

29 Particulars of subsidiaries

As at the date of this report, PBMHL has direct and indirect interests in the following wholly owned subsidiaries, all of which are private companies, or if incorporated outside Hong Kong, have substantially the same characteristics as a Hong Kong incorporated private company.

<u>Name</u>	<u>Notes</u>	<u>Country/place and date of incorporation</u>	<u>Issued and fully paid up share capital</u>	<u>Attributable equity interests held</u>	<u>Principal activities and place of operation</u>
<i>Shares held directly:</i>					
IHC Chartering Limited	f	The British Virgin Islands 22 August 2001	10 shares of US\$1 each	100%	Provision of ship management services in Hong Kong
IndoChina Ship Management Holdings Limited	a	The British Virgin Islands 22 November 2000	378 shares of US\$1 each	66.67%	Investment holding in Hong Kong
International Handybulk Carriers Management Limited	a	The British Virgin Islands 4 May 2001	10 shares of US\$1 each	100%	Provision of shipping management services in Hong Kong
Pacific Basin (UK) Limited . .	a	The United Kingdom 2 December 1998	2 shares of GBP1 each	100%	Provision of ship consulting services in the United Kingdom
Pacific Basin Chartering Limited	f	The British Virgin Islands 4 July 2003	10 shares of US\$1 each	100%	Vessels chartering in Hong Kong
Pacific Basin Shipping & Trading Co. Limited	f	The British Virgin Islands 19 April 2001	10 shares of US\$1 each	100%	Provision of ship management services in Hong Kong
PBST Co. Ltd	f	Bermuda 25 September 1998	12,000 shares of US\$1 each	100%	Dormant
Pacific Basin Shipping (HK) Limited (formerly Pacific Basin Agencies Limited) . .	a	Hong Kong 8 October 1997	2 shares of HK\$10 each	100%	Provision of ship agency services in Hong Kong
Pacific Basin (HK) Limited . .	f	Hong Kong 4 February 2003	2 shares of HK\$1 each	100%	Investment holding in Hong Kong
Pacific Basin Agencies Limited (formerly PB (HK) Limited)	f	Hong Kong 8 April 2004	1 share of HK\$1	100%	Dormant

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

<u>Name</u>	<u>Notes</u>	<u>Country/place and date of incorporation</u>	<u>Issued and fully paid up share capital</u>	<u>Attributable equity interests held</u>	<u>Principal activities and place of operation</u>
<i>Shares held directly: (Continued)</i>					
PB Supervisory Limited	f	The British Virgin Islands 26 May 1999	1 share of US\$0.01	100%	Provision of ship management services in Hong Kong
Taylor Shipping (BVI) Limited	f	The British Virgin Islands 4 Dec 2002	10 shares of US\$1 each	100%	Vessel chartering in Hong Kong
<i>Shares held indirectly:</i>					
IndoChina Ship Management (HK) Ltd	a	Hong Kong 11 February 1964	100 shares of HK\$1,000 each	66.67%	Provision of ship management services in Hong Kong
IndoChina Ship Management, Inc. (formerly Tohken Integrated Shipping & Marine Services Company Inc)	c	Philippines 13 May 1991	250,000 shares of Peso 10 each	66.67%	Provision of crew manning services in Philippines
Majestic Carriers, Inc.	f	Republic of Liberia 26 February 1970	1,000 shares of US\$1 each	66.67%	Provision of crew manning services in Hong Kong
IndoChina Marine Services Limited	a	Hong Kong 8 August 1980	2 shares of HK\$1 each	66.67%	Sale of chemical products in Hong Kong
IndoChina Marine Services, Inc. (formerly Jardine Marine Inc)	c	Philippines 13 June 1995	5,000 shares of Peso 100 each	66.67%	Sale of chemical products in Philippines
IndoChina Ship Management Limited	f	The British Virgin Islands 22 November 2000	10 shares of US\$1 each	66.67%	Investment holding in Hong Kong
Pacific Basin Shipping (USA) Inc. (formerly IndoChina Ship Management (USA) Inc) . .	d	The United States of America 22 May 1996	100 shares of US\$10 each	66.67%	Provision of ship management services in the United States of America
PacMarine Services (HK) Limited	a	Hong Kong 1 September 2000	2 shares of HK\$1 each	66.67%	Provision of surveying and consultancy services in Hong Kong

APPENDIX IB — PB Management Holding Limited ACCOUNTANTS' REPORT

<u>Name</u>	<u>Notes</u>	<u>Country/place and date of incorporation</u>	<u>Issued and fully paid up share capital</u>	<u>Attributable equity interests held</u>	<u>Principal activities and place of operation</u>
<i>Shares held indirectly: (Continued)</i>					
PacMarine Services Pte Ltd (formerly PMS Surveying Services (Pte) Limited) . . .	e	Singapore 10 January 1985	1,000 shares of S\$1 each	66.67%	Provision of surveying and consultancy services in Singapore
PacMarine Services (UK) Limited	b	United Kingdom 3 August 1993	1,000 shares of GBP1 each	66.67%	Provision of surveying and consultancy services in the United Kingdom
PacMarine Services Limited	f	The British Virgin Islands 20 November 2000	10 shares of US\$1 each	66.67%	Investment holding in Hong Kong

Notes:

- (a) The accounts of these companies were prepared in accordance with the applicable accounting principles and relevant financial regulations in respective jurisdiction of incorporation and audited by PricewaterhouseCoopers, Hong Kong.
- (b) The accounts of these companies were prepared in accordance with the applicable accounting principles and relevant financial regulations in respective jurisdiction of incorporation and audited by Vantis Beavis Walker Chartered Accountants.
- (c) The accounts of these companies were prepared in accordance with the applicable accounting principles and relevant financial regulations in respective jurisdiction of incorporation and audited by SGV & Co.
- (d) The accounts of the company was prepared in accordance with the applicable accounting principles and relevant financial regulations in respective jurisdiction of incorporation and audited by The Professional Associates, P.C.
- (e) The accounts of the Company was prepared in accordance with the applicable accounting principles and relevant financial regulations in respective jurisdiction of incorporation and audited by PricewaterhouseCoopers, Singapore.
- (f) As these companies are newly incorporated, there is no statutory requirement in the countries/jurisdictions incorporated, no individual audited accounts were prepared during the Relevant Periods.

(III) SUBSEQUENT ACCOUNTS

No audited accounts have been prepared for PBMHL or its subsidiaries in respect of any period subsequent to 31 December 2003. Except as described in note 27 to the combined accounts in section II, no other dividend or distribution has been declared, made or paid by PBMHL or its subsidiaries in respect of any period subsequent to 31 December 2003.

Yours faithfully,

PricewaterhouseCoopers
Certified Public Accountants
Hong Kong