Annual Report 2008

(Stock Code: 2343)

Pacific Basin

Pacific Basin is one of the world's leading owners and operators of modern handysize and handymax vessels and a global provider of diversified shipping services. The Company is listed and headquartered in Hong Kong and operates in three main maritime segments: dry bulk, tug and barge, and Roll on Roll off shipping. Our core fleet comprises over 100 vessels directly servicing blue-chip industrial customers. With over 1,800 seafarers and 360 shore based staff in 21 offices in key locations around the world, Pacific Basin provides a comprehensive quality service to its customers.

Pacific Basin-IHC • Pacific Basin-IHX • PB Towage • PB RoRo

www.pacificbasin.com

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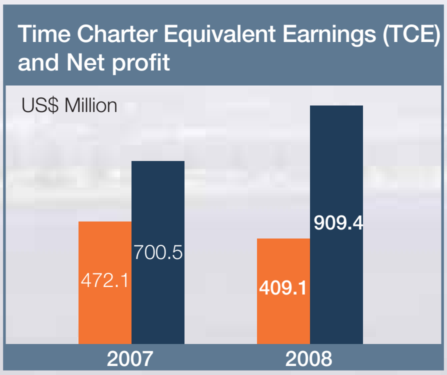
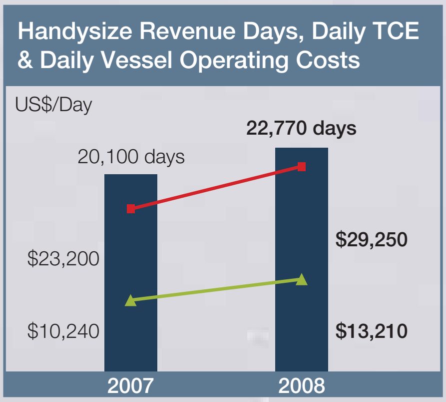
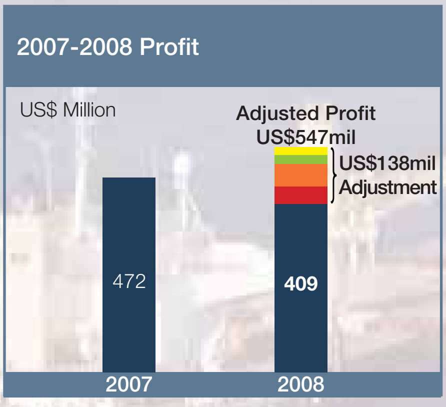
Financial Summary



Net Profit attributable to Shareholders
TCE



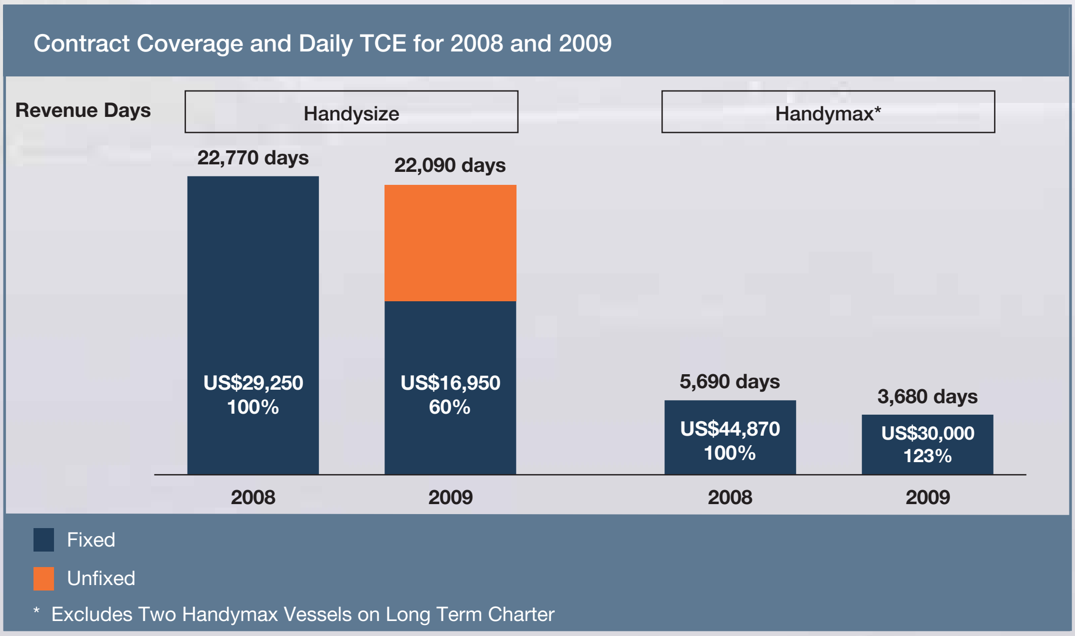
Handysize Days
Daily TCE
Daily Vessel Operating Costs



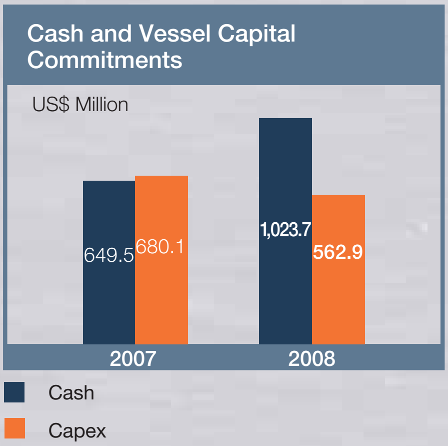
Reported Profit
US$42 million One-off Charter-hire Payments
US$54 million Provision for Chartered-in Vessel Contracts
US$23 million Mark-to-market Impairment of Equity Investment
US$19 million Impairment for Vessels to be Sold in 2009

	YOY % change	**2008 US$'000**	2007 US$'000	2006 US$'000
Results				
Revenue	*44%*	**1,690,948**	1,177,292	620,444
Time charter equivalent earnings	*30%*	**909,417**	700,473	344,776
Finance costs, net	*24%*	**(22,125)**	(17,847)	(23,705)
Net profit attributable to shareholders	*(13%)*	**409,119**	472,125	110,292
Balance Sheet				
Total assets	*41%*	**2,330,505**	1,654,336	919,895
Net cash/(borrowings)		**175,929**	(10,730)	(287,223)
Shareholders' equity	*41%*	**1,218,702**	867,567	484,993
Cash and bank balances	*58%*	**1,023,741**	649,535	63,242
Capital commitments	*53%*	**445,771**	291,366	251,683
Cash Flows				
Operating		**459,083**	313,979	148,188
Investing		**(244,496)**	101,982	(241,075)
Financing		**110,754**	170,332	74,048
Change in cash		**325,341**	586,293	(18,839)
		HK cents	HK cents	HK cents
Per Share Data				
Basic EPS	*(19%)*	**189**	234	65
Dividends	*(37%)*	**76**	120	42.5
Operating cash flows	*35%*	**212**	156	87
Net book value	*27%*	**543**	427	243
Share price at year end	*(72%)*	**352**	1,258	490
Market capitalisation at year end		**HK$6.2bn**	HK$19.9bn	HK$7.6bn
Ratios				
Net profit %		**45%**	67%	32%
Eligible profit payout ratio		**57%**	52%	71%
Return on average assets		**21%**	46%	15%
Return on average equity		**35%**	78%	36%
Total shareholders' return		**(60%)**	171%	51%
Number of full time shore-based staff per vessel		**2.3**	2.5	2.8
Net cash/(borrowings) to book value of property, plant and equipment		**22%**	(1%)	(38%)
Net cash/(borrowings) to shareholders' equity		**14%**	(1%)	(59%)
Interest coverage		**10.4X**	22.2X	6.3X

Results Highlights



- **Group profits for the year were US$409 million** (2007: US$472 million) in a volatile year that featured both all time record high and recent record low bulk shipping rates. **Basic earnings per share were HK$1.89** (2007: HK$2.34)
- **Charges of US$138 million** for one-off charter-hire payments, provision for chartered-in vessel contracts, impairment for vessels to be sold in 2009, and non-cash mark-to-market impairment of an equity investment
- **Group's adjusted profit before these charges was US$547 million**, its best performance since listing
- **Strong balance sheet with cash position of US$1,024 million and net cash of US$176 million**
- **Fully funded capital commitments** of US$433 million in non-dry bulk vessels and US$130 million in dry bulk vessels



- **Handysize revenue days increased by 13%** to 22,770 in 2008 (2007: 20,100) due to expanded owned and long term chartered fleet
- **Contract cover** is in place for 60% of the current 22,090 handysize revenue days in 2009 at US$16,950 per day net and 28% of the handysize revenue days in 2010. Baltic Handysize spot index on 25 February 2009 stood at US$8,212 per day net
- **Ship sales** generated disposal gains of US$150 million (2007: US$137 million)
- **Core fleet (including newbuildings) now totals 119 vessels** comprising 86 dry bulk vessels, 27 tugs and barges, and 6 RoRos. The dry bulk fleet comprises 68 handysize, 16 handymax, and 2 post panamax vessels
- **PB Towage has grown** to 17 tugs and 6 barges and expanded operations from Australia to New Zealand, India and the Middle East
- **PB RoRo established** with order of 4 RoRo newbuildings and options for 2 additional newbuildings. The first RoRo vessel delivers in August 2009
- **Continued development of FBSL joint venture**, which in 2008 won a reclamation contract involving the transport of 54 million tonnes of aggregates over the next three years
- **Well positioned to weather shipping crisis** through proactive management of our operations, strategic reorganisation and overheads reduction
- **Challenging, volatile and uncertain** bulk shipping market to continue in 2009

CHAIRMAN'S STATEMENT

In a quite extraordinary year that featured both all time record high and recent record low bulk shipping rates, Pacific Basin produced 2008 net profits of US$409 million and basic earnings per share of HK$1.89. These results were after charging US$138 million for one-off charter-hire payments, a provision for onerous chartered-in vessel contracts and a non-cash mark-to-market impairment of an equity investment. Prior to these charges, the Group's adjusted profit was US$547 million, its best performance since listing in 2004, whereas in 2007 the Group's profit was US$472 million.

As set out in the interim report, the Board's dividend policy was amended to pay out a minimum of 50% of profits excluding vessel disposal gains, whereas previously such gains were eligible for a dividend payment. For 2008 our interim dividend payout of HK 76 cents is equivalent to 57% of our full year profit eligible for a dividend payment. As such, and in accordance with the policy, the Board recommends not to pay out a final dividend for 2008. The Group will continue to husband its cash so as to be better able to invest in the right opportunities when they arise.

Pacific Basin has a strong balance sheet. At year end we had US$1 billion in cash and bank balances and our net cash position was US$176 million. Our capital expenditure commitments of US$433 million for non-dry bulk vessels and US$130 million for dry bulk vessels are fully covered by our existing cash balances. Our cash position reflects a number of initiatives over the past fifteen months including the issuance of convertible bonds for US$384 million in December 2007, the raising of US$271 million of fresh equity in May 2008 and the securing of some US$290 million of new bank facilities in June 2008. During the year, we repurchased convertible bonds with a face value of US$65.8 million giving rise to a US$21.9 million saving in repayments. In addition, we are now in the process of acquiring over US$200 million in additional long term vessel financing.

Our cash position has also been improved by the sale of vessels. During 2008 we sold seven dry bulk ships and one tug for a total consideration of US$313 million realising disposal gains of US$150 million. Towards the end of the year and in early 2009, we reached agreement on the sale (with delivery in 2009) of five more vessels.

The Baltic Dry Index reached an all-time high of 11,793 points on 20 May and a 22 year low of 663 points on 5 December 2008. In the first half of the year, dry cargo demand outpaced ship supply pushing handysize vessels' spot daily earnings up as high as US$50,000. In the second half of the year, the financial crisis and consequent disappearance of much trade credit led to a collapse in bulk cargo movements with calamitous consequences for spot market earnings, which fell below US$5,000 per day, the approximate level of daily cash operating costs for many dry bulk owners.

In this environment, Pacific Basin's policy of prudently locking in forward contract cover has positioned us relatively well to meet today's very adverse market conditions. As at 20 February 2009, we had covered some 60% of our 2009 handysize revenue days at US$16,950 per day net and 28% of our 2010 revenue days, whereas on 25 February the Baltic Handysize spot index stood at US$8,212 per day net. We had also covered over 100% of our handymax revenue day exposure in 2009 and 2010 at attractive rates.

This level of cargo cover reflects the appeal of our large fleet of modern, well-equipped and interchangeable ships to a broad range of customers whose daily needs are served by a network of Pacific Basin offices around the world. Our strong brand is reinforced by our visible financial strength and our record of reliable performance, both of which appeal to shippers who are (with good reason) increasingly nervous about counterparty performance. We, in turn, are certainly not immune from counterparty risk, but the fact that we mainly charter our ships to producers and end-users of industrial cargoes rather than to intermediate operators means that we are relatively well positioned.

Like most other market participants, we did not anticipate the timing and severity of the fall in the dry bulk market. However, our strategy for some time has been to prepare for a weaker dry bulk market by raising cash, selling and chartering back vessels and investing in businesses outside dry bulk. These businesses are developing satisfactorily. Our first Roll on Roll off vessel is set to deliver to PB RoRo in August 2009 and will trade under a three-year timecharter to an established and financially strong operator. In Australia, New Zealand and the Middle East, our PB Towage businesses are operating well. FBSL, our joint venture with the Government of Fujairah, has recently secured a significant land reclamation project which runs for three years from 2009. In the greater China region, we have developed strong relationships with both port authorities and shipping customers.

In addition, we have taken a number of other actions to help us weather the current difficult market and strengthen the Group:

- During the fourth quarter of 2008, we scaled back our non-core activities, including PB Tankers and PB Ports, so as to concentrate our efforts on Pacific Basin-IHC and -IHX, our core dry bulk businesses, PB RoRo and PB Towage, into which substantially all of our committed capital expenditure will be deployed.

- We have reduced our 2009 overhead cost by an anticipated 25% from 2008 levels as a result of the scale down of our non-core activities and resultant reduction in our headcount. Our most senior 11 executives have taken a 10% salary reduction.

- During November and December 2008 we made one-off handysize and handymax charter termination payments amounting to US$42 million and simultaneously entered into new charter-in contracts at lower rates. These arrangements have resulted in a US$5.2 million cash discount on the originally contracted amounts.

- We have provided US$54 million against our 2008 results for onerous chartered-in vessel contracts.

We expect the challenging, volatile and uncertain bulk shipping markets to continue in 2009. The worldwide economic outlook has deteriorated during the first quarter of 2009 and credit conditions remain extremely tight. Whilst some replenishment of depleted iron ore stockpiles may temporarily lift rates, slower industrial production and anaemic or negative economic growth will most likely depress trade. The difficulties of dry bulk owners in coping with reduced demand are compounded by an anticipated excess of ship supply given that the world dry bulk orderbook, delivering mainly from 2009 to 2011, comprises an enormous 70% of the fleet afloat. Two factors will help moderate supply. First, it is likely that a significant portion of the orderbook will be cancelled or delayed due to the collapse in ship values and limited availability of credit. Second, many ships will head for the scrapyards: in the three months ended 31 January 2009, some 6.4 million deadweight tonnes were scrapped, exceeding the scrapping of the previous five years combined, and we expect high levels of demolition to continue whilst the market remains depressed. Nevertheless, we expect ship supply to exceed demand for some time to come. Pacific Basin therefore intends to conserve its capital so as to be able to purchase assets – most likely dry bulk fleets or companies – at attractive prices at the right time.

I extend my thanks to the hard working and talented staff of Pacific Basin. Although we currently face an extremely difficult market, our Company has a strong management team and a very healthy balance sheet that will allow it to take full advantage of the many opportunities that will appear.

David M. Turnbull
Chairman
Hong Kong, 2 March 2009

BUSINESS REVIEW AND OUTLOOK

- *Contract cover is in place for 60% of current 22,090 handysize revenue days in 2009 at an expected average rate of about US$16,950 per day net. 28% of 2010 handysize revenue days are covered*
- *Contract cover is in place for 123% of current 3,680 handymax revenue days in 2009 at an expected average rate of about US$30,000 per day net. 124% of 2010 handymax revenue days are covered*
- *PB Towage's fleet has grown to 17 tugs and 6 barges in operation in Australasia, India and the Middle East, and is making a welcome contribution to the Group's results*

- *FBSL, our joint venture with the Government of Fujairah, continues to grow as export volumes increased 32% over 2008 and the new land reclamation project in Fujairah provides additional contributions to earnings*
- *Pacific Basin acquired four newbuilding RoRo vessels and options for two more. The first delivers in August 2009 with employment secured from a blue-chip counterparty. The high average age of the world RoRo fleet and modest orderbook is expected to lead to strong demand for these new ships in future*
- *Pacific Basin is well positioned to take advantage of the opportunities that lie ahead in a difficult market*

The Dry Bulk Market

Dry bulk shipping in 2008 was a tale of two markets.

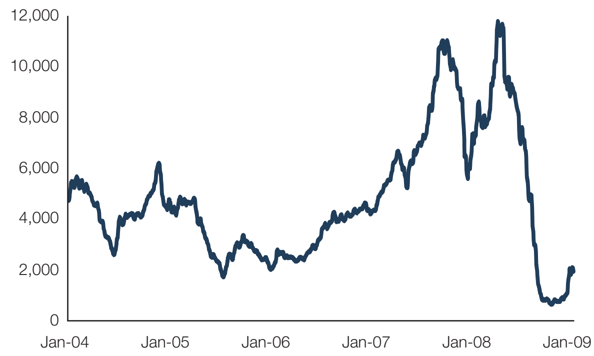
During the first half of 2008, the BDI soared to all time high levels, reaching 11,793 points on 20 May, on the back of estimated 10% year on year ("YoY") growth in tonnage demand relative to 6% YoY growth in supply. Average daily spot earnings for handysize and supramax vessels reached approximately US$50,000 and US$70,000 per day respectively and, for a brief period, capesize vessels earned over US$230,000 per day. Demand was driven by the resource-hungry emerging economies of the Far East, particularly China, where increased steel production required larger volumes of iron ore to be transported over longer distances. Simultaneously, soaring commodity prices encouraged importers to raise their stock levels to avoid further price hikes, which in turn further increased shipments. Load and discharge ports operated at full capacity leading to more congestion, effectively reducing vessel supply. The dry bulk fleet continued to operate close to full utilisation until the middle of the year, keeping rates at record highs.

In stark contrast, the second half of the year saw freight rates plummet at a pace and to a degree unlike any previous fall. Cargo demand growth turned abruptly negative and, by early December, the BDI had dropped by 94% to 663 points, its lowest point in over 22 years. The larger capesize vessels were particularly hard hit with rates dropping as low as US$2,500 a day. By year end, many such ships were either idle or fixing cargoes at rates that generated earnings well below their daily cash operating cost. Smaller ships, which are less dependent on iron ore trades, fared slightly better but still only achieved approximately 10% of the record earnings they had generated six months earlier.

A number of factors contributed to this extraordinary drop in the market. Chinese crude steel production slowed towards the middle of the year following Chinese government action to cool the overheated property market. Meanwhile, the worsening global credit crisis hit the shipping markets in two ways: reduced trade finance stalled shipments, and the deteriorating global economic outlook caused consumers to cut spending and manufacturers to cut production. This situation was then exacerbated by a significant fall in commodity prices which prompted buyers holding large inventories to delay imports in anticipation of further price reductions. In addition, the slowdown in global trade reversed two other factors that had previously helped drive the bull freight market: long-distance ballast voyages reduced and port congestion significantly eased, both effectively increasing tonnage supply at a time of falling demand.

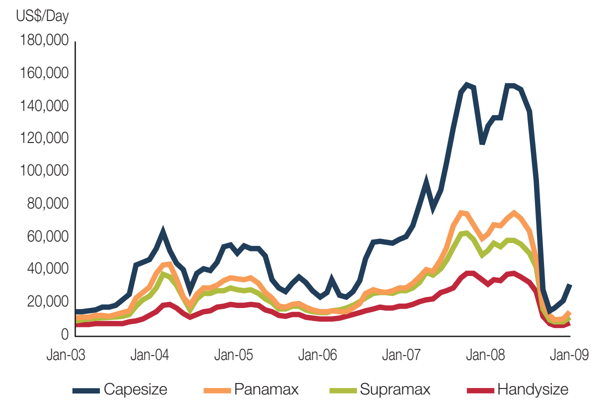
Note: Demand growth estimates provided by R.S. Platou; Supply growth estimates provided by Clarkson

Baltic Dry Index



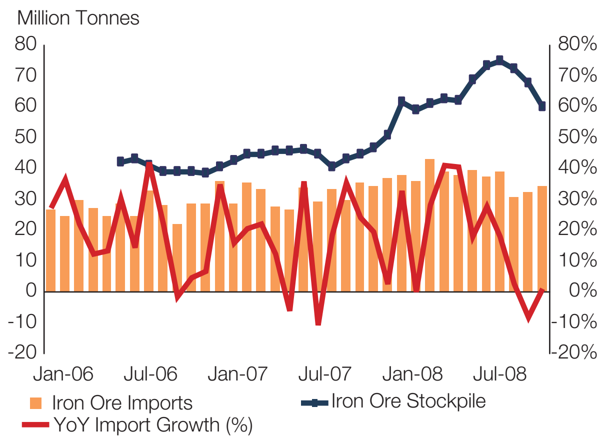
Source: The Baltic Exchange

Bulk Carrier 1 Year TCE Net Earnings



Source: Clarkson

Chinese Iron Ore Imports Growth



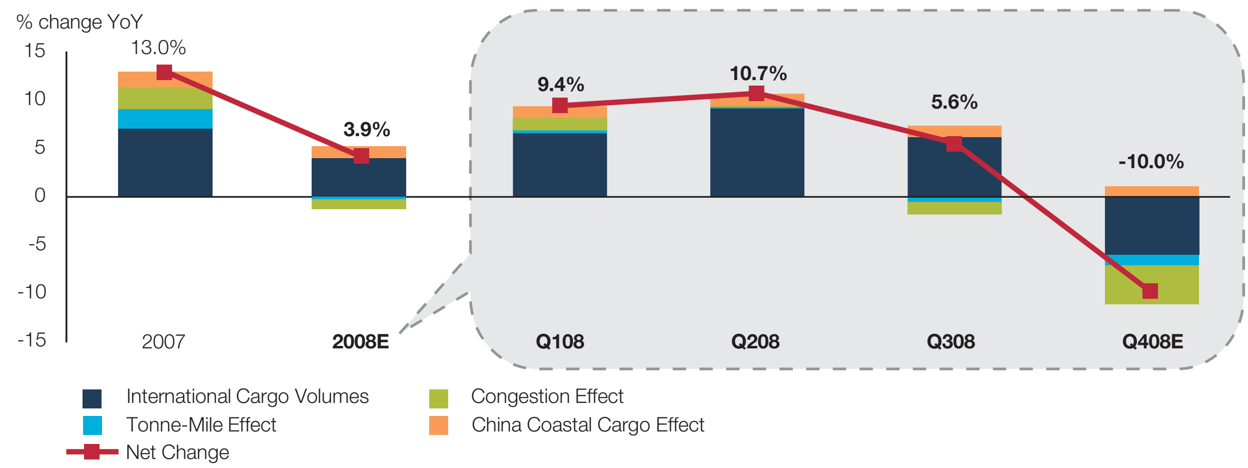
Source: Bloomberg LP, Mysteel

Demand for bulk shipping fell by an estimated 2% YoY in the second half of 2008 whilst the dry bulk fleet continued to grow steadily by an estimated 7% YoY. The most dramatic change occurred in the final quarter of 2008, when demand contracted by an estimated 10% YoY and the dry bulk fleet grew by 7% YoY resulting in a significant worsening in the supply/demand balance and an unprecedented decline in freight rates.

The delivery of newbuildings into the market remained relatively steady throughout 2008, but a surge of converted tankers (commissioned when the market was stronger) joined the dry bulk fleet in the second half of the year. This additional supply was partially offset by a revival in demolition as owners struggled to find employment for their ships or faced earnings well below daily operating costs. Demolition gathered pace towards the end of the year: 5 million tonnes of dry bulk capacity was scrapped in the second half of 2008, of which 4.4 million tonnes was scrapped in November and December alone. A further 2 million tonnes was scrapped in January, giving rise to the sale for demolition of a record-breaking 6.4 million tonnes of dry bulk capacity in the three months ended 31 January 2009, which exceeds the scrapping of the previous five years combined.

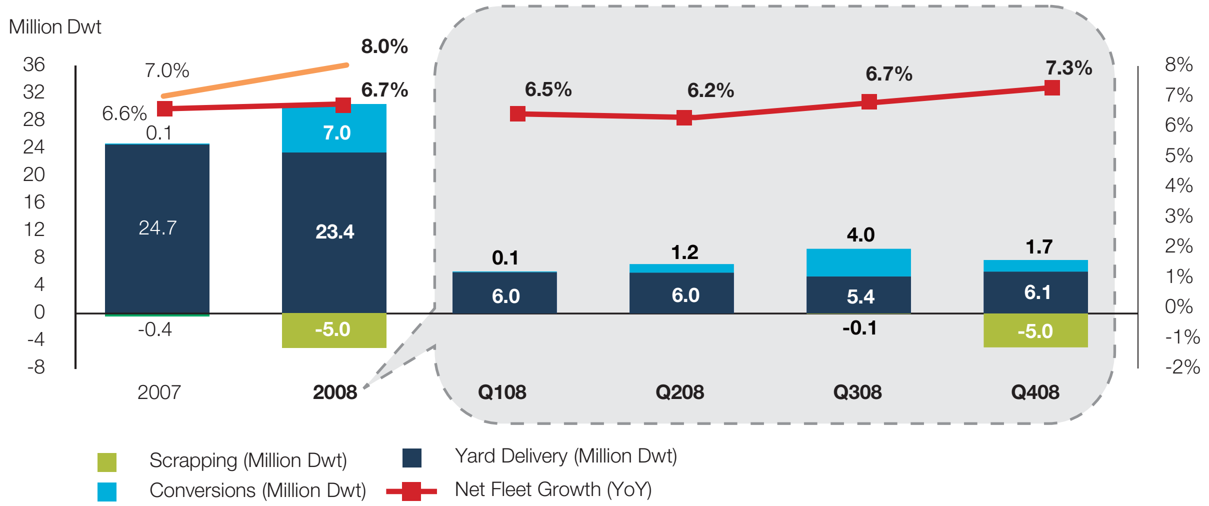
Although there has been some improvement in the freight market since early December, dry bulk freight earnings remain well below the previous lows of the past six years.

Changes in Tonnage Demand



Source: R.S. Platou

Fleet Development



* Data as at Jan 2007 and Jan 2008 from Clarkson's Shiptype Orderbook Monitor
Source: Clarkson

Handy Bulk Business Overview

Pacific Basin's core dry bulk chartering business operates one of the world's largest fleets of modern handysize and handymax ships under their respective brand names "Pacific Basin-IHC" and "Pacific Basin-IHX".

This fleet serves the bulk transportation needs of a wide range of mainly blue chip customers across a range of industries including agriculture, forestry, mining, manufacturing and construction. Our handysize and handymax ships carry a broad range of bulk commodities and consequently experience less earnings volatility than capesize and panamax dry bulk ships, which carry fewer cargo types. Our vessels are generally employed to carry cargoes directly for industrial commodity producers and end-users rather than by being chartered to intermediate ship operators, thereby minimising our counterparty risk. Similarly, we aim to secure the majority of our chartered-in vessels from head owners as opposed to intermediate ship operators, again to minimise counterparty risk.

We manage the volatile freight market by covering a substantial portion of our revenue days with contracts of affreightment. We also make limited use of time charters and forward freight agreements ("FFAs") to hedge our exposure, particularly when suitable cargo cover is not immediately available.

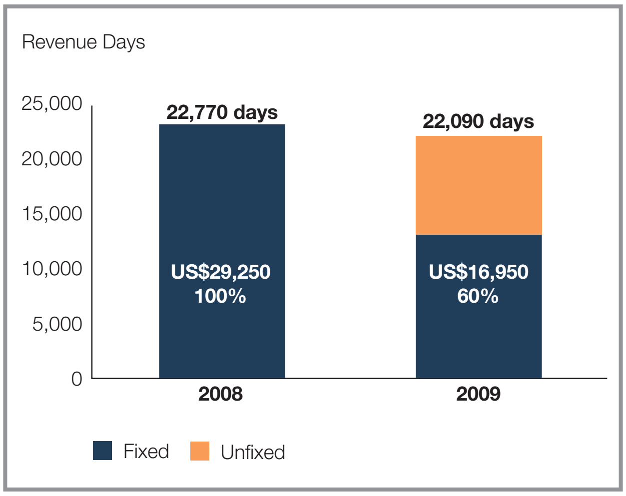
We strive to provide our customers with a professional, reliable service via round-the-clock support from experienced freight and operations professionals in our eight chartering offices around the world. Our strong balance sheet enables us to attract customers seeking a "safe" counterparty who can perform future, multiple-year contractual obligations. With a large fleet of modern and interchangeable ships we can offer our customers maximum scheduling flexibility and a more reliable performance in a dynamic shipping environment, where sudden outside influences such as weather or port delays can cause unforeseen changes to a vessel's schedule. Few of our competitors can provide the same visibility and reliability.

Handysize

The Group's handysize activities under the "Pacific Basin-IHC" brand continued to grow in 2008, with an expansion of the core fleet early in the year giving rise to a 13% YoY increase in ship revenue days from 20,100 days in 2007 to 22,770 days in 2008. We sold and chartered back a number of ships during the year to lock in significant disposal gains and to reduce our exposure to any decline in ship values. The division currently operates a core fleet of 62 owned and long term chartered ships plus a further 11 ships on short term charter giving a total fleet size of 73 ships.

Our handysize fleet operates a mix of spot and contract business covering periods of between one and ten years, and engages in worldwide trading with a primary focus on the Pacific Rim, around which much of our cargo contract portfolio is concentrated. The high volume of ships and cargoes in this region offers operational advantages, such as reduced ballast time,

Earnings Coverage – Handysize

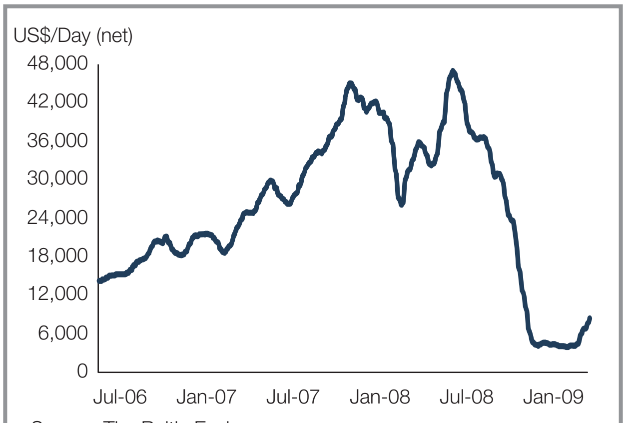


which accounted for only 14% of total operated days in 2008. This strategy allows us to offer customers competitive rates whilst extracting additional value from our business.

Our expanded handysize fleet carried 19.6 million tonnes of cargo in 2008, up 11% from 2007. Key commodities carried included logs and forestry products, steel (including scrap metal), grain, metal concentrates and fertilisers.

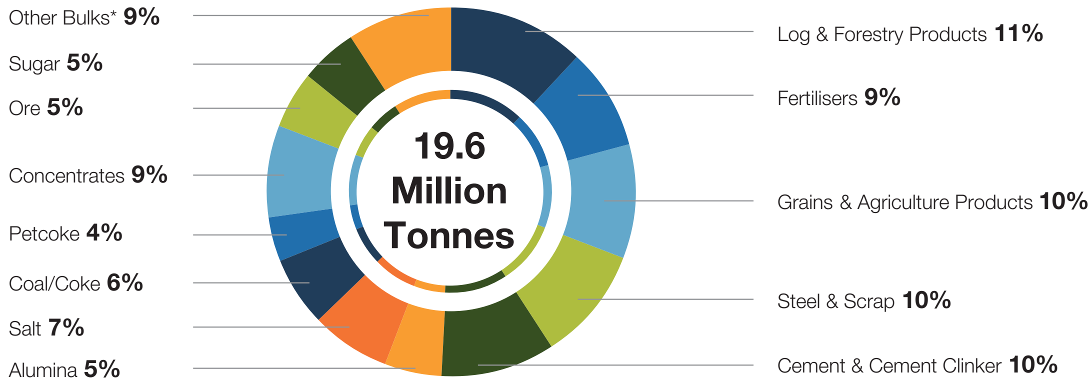
Pacific Basin-IHC achieved a contribution of US$282.5 million in 2008 (2007: US$260.5 million) on net earnings of US$29,250 per day over our 22,770 handysize revenue days – an increase in earnings of 8% on 2007.

The Baltic Handysize Index (BHSI)



Source: The Baltic Exchange

Pacific Basin-IHC Cargo Volume 2008



*Other Bulks includes Gypsum, Sands, Soda Ash and Aggregates

The following table sets out Pacific Basin-IHC's fleet revenue days and cover rates in 2008 and 2009, as at 20 February 2009:

Handysize Vessel Activity Summary	Unit	FY 2008	**FY 2009**
Cargo Commitments			
Revenue days	days	22,770	**11,390**
Net paper contracts	days	–	**1,880**
Equivalent revenue days	days	22,770	**13,270**
Daily TCE	US$	29,250	**16,950**
Ship Commitments			
Revenue days	days	22,770	**22,090**
Net Position			
Cargo as % of ship commitments	%	100%	**60%**

Handysize FFA Activity Summary	Unit	FY 2008	**FY 2009**
FFA paper sold	days	1,980	**2,050**
FFA paper bought	days	(450)	**–**
Net realised paper exposure	days	(1,530)	**(170)**
Net FFA paper sold as at 31 December 2008/20 February 2009	days	–	**1,880**

Handymax

The Group's handymax activities under the "Pacific Basin-IHX" brand continued to grow in 2008. Despite volatile market conditions, Pacific Basin-IHX delivered a solid performance in terms of both profitability and market presence. The division's earnings capacity increased to 5,690 handymax revenue days in 2008 from 4,870 days in 2007, and we currently operate 32 vessels including two owned, 13 on long term charter and 17 on short term charter.

Our handymax activities continue to be concentrated on five core geographic regions combining front and back haul routes in order to minimise vessel ballast time (which accounted for only 12.8% of total operated days in 2008) and maximise returns. In contrast to Pacific Basin-IHC, which is more heavily focused in the Pacific, approximately 58% of Pacific Basin-IHX's cargoes were loaded within the Atlantic, Indian Ocean or Middle East, and 42% within the Pacific. The Indian Ocean and Middle East represented our largest load and discharge regions, although significant volumes of cargo were also loaded in Australia and East Coast South America and discharged in China and in South East Asia.

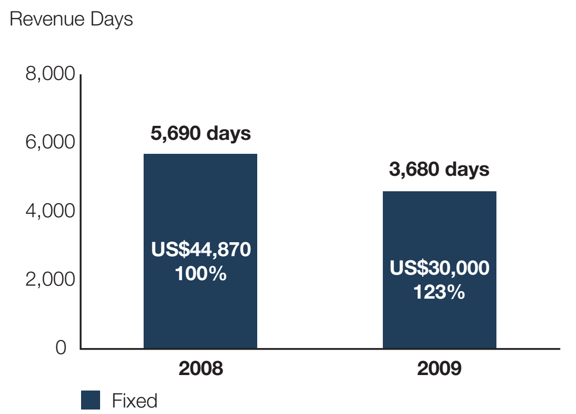
Working with existing and new customers, particularly via our regional offices, cargo volumes for 2008 increased to 11.7 million tonnes from 11.3 million tonnes in 2007. The top five commodities transported by Pacific Basin-IHX in 2008 were iron ore, grains, fertilisers, cement/clinker and coal.

Pacific Basin-IHX achieved a contribution of US$40.5 million in 2008 (2007: US$34.0 million) on net earnings of US$44,870 per day over 5,690 handymax revenue days (4,870 days in 2007).

The Baltic Supramax Index (BSI)

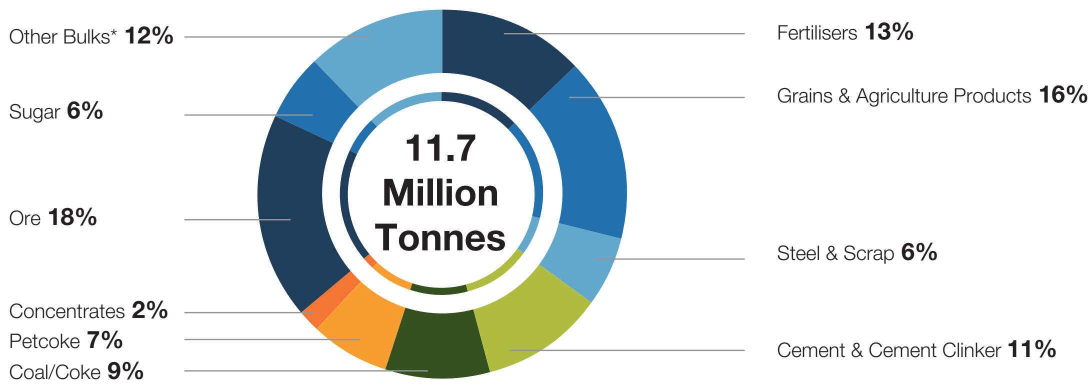
Source: The Baltic Exchange

Earnings Coverage – Handymax



Note: Excludes two handymax vessels on long term charter

Pacific Basin-IHX Cargo Volume 2008



*Other Bulks includes Gypsum, Sand, Alumina, Salt and Aggregates

We have to date secured significant forward contract cover and now have more cover in place than controlled tonnage. This positions us well in the event of a further weakening of the market. The following table sets out Pacific Basin-IHX's fleet revenue days and cover rates in 2008 and 2009, as at 20 February 2009:

Handymax Vessel Activity Summary	Unit	FY 2008	**FY 2009**
Cargo Commitments			
Revenue days	days	5,690	**3,660**
Net paper contracts	days	–	**860**
Equivalent revenue days	days	5,690	**4,520**
Daily TCE	US$	44,870	**30,000**
Ship Commitments			
Revenue days	days	5,690	**3,680**
Net Position			
Cargo as % of ship commitments	%	100%	**123%**

Handymax FFA Activity Summary	Unit	FY 2008	**FY 2009**
FFA paper sold	days	1,970	**1,450**
FFA paper bought	days	(1,870)	**(500)**
Net realised paper exposure	days	(100)	**(90)**
Net FFA paper sold as at 31 December 2008/20 February 2009	days	–	**860**

Post Panamax

We continue to value highly our relationship with China Huaneng Group ("CHG"), which is China's largest power producer. Having jointly secured contracts to build two 115,000 dwt bulk carriers for delivery in 2011, we have reorganised these contracts with CHG such that Pacific Basin retains ownership of one of these vessels and will bareboat charter it at a fixed rate from delivery for fifteen years to CHG. We also have a 95,000 dwt bulk carrier delivering to us in 2011 under a ten-year time charter with purchase option. We have relet this ship for ten years to a blue chip counterparty. As such, our operational exposure to the large bulk carrier market is substantially covered.

Fleet Operations

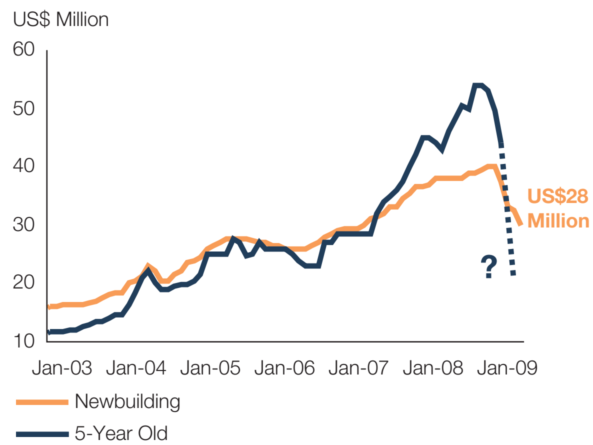
The safety of our seafarers, vessels, cargoes and the environment is given the highest priority, and our technical operations team maintained a very good safety and environmental record in 2008. Effective management also resulted in tight control of ship operating expenses and in minimal vessel downtime which is critical to providing reliable service to our customers.

Pacific Basin currently provides the chairman of the Technical Committee (CASTEC) of Intercargo, the International Association of Dry Cargo Shipowners. This committee advises the Association and its membership on safety, technical and environmental issues, and our chairmanship of the Committee is a reflection of our interest in these matters, and of the experience and reputation of our senior technical executives.

Piracy in the Gulf of Aden remains a worrying issue for the industry. While our ships do not regularly sail through the area, we have had two vessels pass without incident through the Gulf in convoys under naval protection. In future, we hope that the increased naval presence in the region will reduce the risk of attacks.

In recognition of the excellent attention to quality and safety on board our ships, the Hong Kong Marine Department honoured us for a second year with an award for our leading performance among Hong Kong flagged fleets in port state inspections.

Handysize Vessel Values (25,000-35,000 dwt)



Note: Clarkson suspended publication of 5-year old vessel values as at 3 Oct 2008

Source: Clarkson Feb 2009

Core Fleet Development

Second hand values of dry bulk vessels peaked in mid 2008 when Clarkson estimated the value of a five-year old handysize vessel to be in excess of US$50 million. The second half of the year saw a significant decline in vessel values as a result of the falling freight markets. Purchase interest disappeared and, in some cases, buyers forfeited their deposits – 10% or more of the total price – and declined to take delivery of ships to which they had previously committed. In the absence of transactions, the sale and purchase market froze and ship values became a matter for theoretical speculation. Many ship brokers ceased publication of generic values altogether. It was only in November 2008 that sale and purchase activity started to return as owners and operators adjusted to the lower market.

During the first half of the year we sold seven bulk carriers and one tug, which were all successfully delivered to their buyers. Towards the end of the year, we agreed to the sale (with delivery in 2009) of four further vessels, one of which we have chartered back for one year. In early 2009, we agreed to the sale of another vessel, which has also been chartered back for one year.

Our PB Towage fleet has grown significantly, with a net increase of 11 tugs and five barges from both single vessel and company acquisitions.

Our RoRo division also began operations with an order for four newbuilding vessels with an option to purchase another two.

Core Fleet Development (excluding short term charters) [4]

Number of vessels	Delivered Fleet: Owned	Delivered Fleet: Chartered[1]	Delivered Fleet: Total	Newbuildings on Order: Owned	Newbuildings on Order: Chartered[1]	Newbuildings on Order: Total	Total Fleet
Handysize Fleet							
As at 1 January 2008	16	48	64	11	1	12	76
Newbuildings delivered	7	1	8	(7)	(1)	(8)	–
Exercise of purchase options	4	(4)	–	–	–	–	–
New charters	–	–	–	–	2	2	2
Sale and time charter back	(4)	4	–	–	–	–	–
Disposals	(5)	–	(5)	–	–	–	(5)
Expiry of charters	–	(5)	(5)	–	–	–	(5)
As at 28 February 2009	**18**	**44**	**62**	**4**	**2**	**6**	**68**
Handymax Fleet							
As at 1 January 2008	3	12	15	1	–	1	16
Newbuilding delivered	1	–	1	(1)	–	(1)	–
New charters	–	5	5	–	1	1	6
Sale and time charter back	(1)	1	–	–	–	–	–
Disposal	(1)	–	(1)	–	–	–	(1)
Expiry of charters	–	(5)	(5)	–	–	–	(5)
As at 28 February 2009 [2]	**2**	**13**	**15**	**–**	**1**	**1**	**16**
Post Panamax Vessels							
As at 1 January 2008	–	–	–	2	1	3	3
Disposal	–	–	–	(1)	–	(1)	(1)
As at 28 February 2009	**–**	**–**	**–**	**1**	**1**	**2**	**2**
Total Dry Bulk Fleet as at 28 February 2009	**20**	**57**	**77**	**5**	**4**	**9**	**86**
Roll on Roll off Vessels							
New orders [3]	–	–	–	6	–	6	6
As at 28 February 2009	**–**	**–**	**–**	**6**	**–**	**6**	**6**
Tugs							
As at 1 January 2008	2	6	8	2	–	2	10
New orders	–	–	–	7	–	7	7
Newbuildings delivered	5	–	5	(5)	–	(5)	–
Second hand purchases	3	–	3	–	–	–	3
Acquisition of Sea-Tow	2	–	2	–	–	–	2
Exercise of purchase options	6	(6)	–	–	–	–	–
Disposal	(1)	–	(1)	–	–	–	(1)
As at 28 February 2009	**17**	**–**	**17**	**4**	**–**	**4**	**21**
Barges							
As at 1 January 2008	1	–	1	–	–	–	1
Second hand purchase	1	–	1	–	–	–	1
Acquisition of Sea-Tow	4	–	4	–	–	–	4
As at 28 February 2009	**6**	**–**	**6**	**–**	**–**	**–**	**6**
Total Other Vessel Types as at 28 February 2009	**23**	**–**	**23**	**10**	**–**	**10**	**33**
Total Fleet as at 28 February 2009	**43**	**57**	**100**	**15**	**4**	**19**	**119**

1 *Includes 23 handysize, 1 handymax and 1 post panamax chartered vessels and newbuildings with purchase options*

2 *Includes Pacific Victory, the sale and delivery of which is expected to be completed in April 2009*

3 *Includes 2 RoRo newbuilding vessels which can be acquired by the Group within approximately 2 months of their delivery from the shipyard subject to the exercise of purchase options*

4 *Excludes purely managed vessels*

Other Operations and Business Development

In view of the severely depressed shipping markets and bleak outlook, during the fourth quarter of 2008 we undertook a detailed review of our various operations and, as a result, took steps to improve our ability to weather a protracted downturn and to position ourselves to take advantage of the extraordinary opportunities that we believe will arise from it.

Thus we have refocused our main efforts on three core areas comprising our handysize and handymax dry bulk cornerstone activity, operated under the "Pacific Basin-IHC" and "Pacific Basin-IHX" brands; our Roll on Roll off shipping business, operated as "PB RoRo"; and our tug and barge businesses, operated as "PB Towage". We believe that these three segments provide potential for significant scale and contribution to our results and that their combination will bring the best long term value to shareholders.

Meanwhile we have reduced the breadth of our maritime services and scaled back our China ports and infrastructure ambitions. However, Pacific Basin is fully committed to China as one of our most important geographical areas of focus.

Clockwise from top left:

1. *Tugs Hunter & Botany assisting an LPG vessel in Sydney*
2. *Nanjing Longtan Tianyu Terminal*
3. *Barge Sea-Tow 35 discharging tanks for an alumina refinery in Gladstone*

PB Towage

Pacific Basin's towage activities, under the umbrella name "PB Towage", have expanded significantly during the year. From an initial presence in Australia's harbours at the end of 2007, PB Towage now operates a total of 17 tugs and six barges in Australasia, India and the Middle East, and has a further four tugs on order. These vessels undertake a wide variety of tasks.

PB Towage Australia (originally Australian Maritime Services), was acquired and renamed in November 2007, and provides ship assist harbour towage services in Melbourne, Port Botany (Sydney), Brisbane and Western Australia using a fleet of eight modern, sophisticated tugs. In the summer of 2008 Pacific Basin acquired Sea-Tow (since renamed PB Sea-Tow), a leading regional project towage operator with a fleet of heavy duty tugs and barges headquartered in Auckland, New Zealand. This acquisition has enabled PB Towage to undertake complex project cargo jobs as a service provider to the offshore energy and construction sectors. PB Sea-Tow controls five tugs, including a recently acquired multi-purpose vessel, the largest in our fleet, and four heavy lift barges. The remainder of the PB Towage tug and barge fleet is deployed in offshore work in India (one vessel), and on charter to Fujairah Bulk Shipping (three tugs and two barges) transporting aggregates within the Arabian Gulf.

Pacific Basin's strategy for towage has been to build a fleet of high quality, modern and standardised vessels in a sub-sector which has thus far suffered from under-investment, and to gather the associated commercial and operating expertise under one roof. Our existing strong brand, international presence, and strong capital base have facilitated the swift development of the PB Towage division in line with this strategy. The tug market fared well during 2008, proving more resistant than other shipping sectors to the changes in the financial and commodity markets in the latter half of the year. Continued expansion of port facilities and vessel traffic contributed to this, as did the roll-out of new energy-related projects requiring offshore construction and specialist transportation. Nevertheless, we expect a more challenging commercial environment for tugs in 2009, driven by difficult economic conditions. We aim to strengthen PB Towage's resilience by building our position in the specialist project sector relating primarily to oil and gas-associated construction (which is expected to remain relatively robust), and by focusing on the provision of high quality tug operations to blue chip charterers in the Middle East, India and Asia, especially in harbours and offshore areas where many competitors provide lower service standards and operate older, less well maintained equipment.

Tugs Yarra & Flinders 1 in the Port of Melbourne

Roll On Roll Off ("RoRo") Vessels

In February 2008, Pacific Basin entered the RoRo sector. We secured contracts for a total of four newbuildings from Odense Steel Shipyard in Denmark, and subsequently options for two further vessels from the Hyundai Mipo Shipyard in Korea. The first vessel is scheduled to deliver from Odense in August 2009 and the remainder in 2010 and 2011.

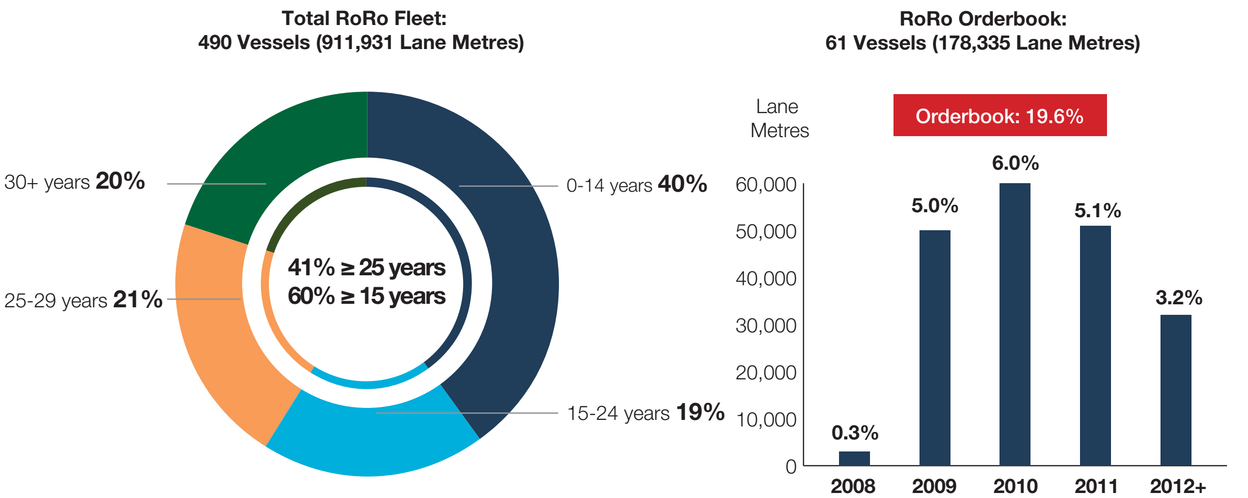
The vessels in which we are investing are designed for use on regular, high intensity, rapid turn-around and relatively short-haul services focused on the carriage of unaccompanied freight trailers and in particular perishable and high-value cargoes. They are also capable of carrying containers on trailers and other unaccompanied vehicles. As such they are well suited to the established RoRo services operated within Europe and the Mediterranean Sea, whose expansion is a key objective of European Union transport policy. This market sector is completely different from the pure car carrier and pure car and truck carrier sectors, which currently face serious over-supply. It is also separate from the long haul deep-sea multi-purpose RoRo trades which typically serve emerging and third world markets carrying a mix of vehicles, containers and project cargoes.

The contracts for the two Korean-built ships are structured in the form of two year time charters to Pacific Basin with options for us to acquire the ships after delivery. We can choose not to declare these options in which case the option price would not be refundable.

The total remaining consideration for all six vessels, on the basis that the options are declared, is approximately US$403 million, representing the majority of the Group's capital expenditure commitments. The vessel delivering in 2009 has already been chartered to an established operator for three years (with an option in the charterer's favour for a further two years), so the Group has no market exposure to vessels without employment until early 2010.

The ships on order for the Group offer operators substantial benefits compared to older tonnage due to their manoeuvrability, efficient layout for cargo operations and market leading fuel economy. The world RoRo fleet has a high average fleet age (41% of lane metre capacity is over 25 years old) and a modest orderbook (less than 20% of the existing fleet). There is thus a need for substantial fleet renewal, which our newbuildings will be well placed to meet.

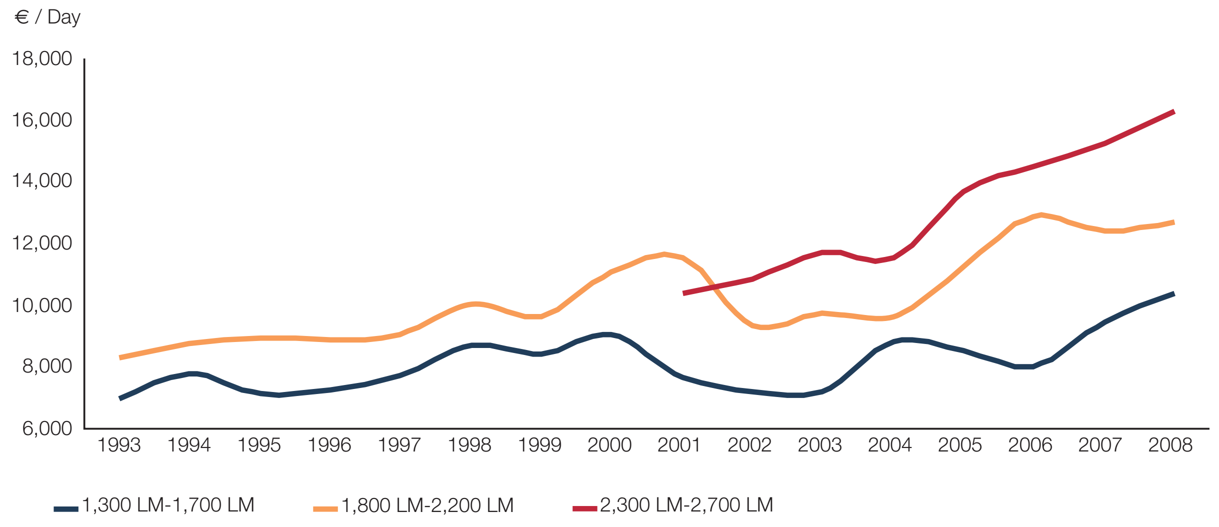
Age Profile of World RoRo Fleet



Note: % of the existing fleet expressed in lane metres
Source: Maersk Broker, data as at Dec 2008

Our strategy for the employment of these ships is to act as a tonnage supplier, time chartering them to existing RoRo operators to allow them to develop new trades, expand cargo volumes prior to delivery of their own tonnage, and achieve flexibility in their operations. In the short term we are looking for employment opportunities in Europe and Asia Minor; in the longer term, we will look to the rest of Asia as freight RoRo operations expand in the region. The current financial crisis, difficult global economic circumstances and weakness in our target European market have of course had a serious impact on demand for the transportation of freight trailers by sea, which has fallen by approximately 15% in the last six months. This is clearly a concern. However the current lack of bank credit and depressed trading conditions will probably discourage owners and operators from placing new orders in the near term, thereby further improving the demand for our vessels when freight volumes again pick up.

RoRo Vessels (1,300-2,700 Lane Metres) 1-Year Moving Average Time Charter Rates



Source: Maersk Broker, data as at Dec 2008

Illustration of an Odense RoRo vessel on order

Fujairah Bulk Shipping

Fujairah Bulk Shipping L.L.C. ("FBSL"), our joint venture in the United Arab Emirates, continues to grow and perform satisfactorily. Following a shareholder reorganisation earlier in the year, it is now jointly owned by Pacific Basin and the Government of Fujairah. In 2008 Pacific Basin's attributable share of profits from FBSL was US$1.9 million (2007: US$4.3 million) after allowing for one-off restructuring costs resulting from an increase in our stake in the business to 50%. The core business of exporting rock and aggregates through a fully integrated supply chain continues to grow with 2008 export volumes increasing by 32% YoY.

In 2008 FBSL secured a land reclamation contract from the Municipality of Fujairah requiring the transportation of approximately 54 million metric tonnes of aggregates for an industrial site in northern Fujairah. Mobilisation work on the project commenced in the third quarter of 2008 and is now ahead of schedule. The project is due to be completed by the end of 2011 and is expected to further increase the revenues and profits of the business over the coming few years. A successful completion of this project is likely to lead to FBSL taking on more projects of a similar nature in coming years.

We expect FBSL to continue to grow in 2009 albeit at a slightly slower pace due to the global economic slowdown's effect on the Gulf region. In the meantime FBSL's reputation as a reliable supplier of top quality aggregates in the region continues to grow, which we believe will generate many opportunities for the Group.

PB Ports

Our China ports and infrastructure unit has been scaled back to focus on the management of our investment in the Nanjing Longtan Tianyu Terminal in which we hold a 45% interest. In its first year of operation, the terminal handled over 1.2 million tonnes of general cargo, in line with our original expectations. We do not intend to pursue new port investments inside or outside China. However, as a consequence of the Group's involvement in a tug and barge project on the west coast of Canada, Pacific Basin also has an interest in a wharf facility in the Port of Gold River, which is expected to become operational later this year.

Clockwise from left:

1. *Tug PB Pearl in the Middle East*
2. *Barge PB1 in the Middle East*
3. *Barge PB1 loading rocks in Fujairah*

PB Maritime Services and PB Tankers

Following our fourth quarter 2008 review of the Group's activities, we sold the activities of PB Tankers and PB Maritime Services in Singapore, which mainly provide commercial and technical services in respect of tankers and gas ships. We also closed PB Maritime Services' office in Cyprus and relocated its headquarters to Hong Kong.

The company now provides technical management services from Hong Kong and Liverpool for Pacific Basin's owned fleet and for select clients. PB Maritime Services, Hong Kong, mainly manages dry bulk tonnage whilst Meridian Marine, Liverpool, is primarily engaged in the management of RoRo, offshore and other specialist vessels. Meridian's expertise in the management of RoRo tonnage is a critical element in the strategy of PB RoRo.

PB Maritime Services also maintains crewing offices in Manila and Dalian giving us direct control over the recruiting and training of seafarers, which is critical to the proper running of ships. We are also building a presence in Eastern Europe to secure reliable RoRo crews for the long term.

PB Maritime Services' broad marine management capability will enable the Group to offer effective support to clients who require asset management solutions in the current difficult economic environment.

Dividend

As set out in the interim report, the Board's dividend policy was amended to pay out a minimum of 50% of profits excluding vessel disposal gains, whereas previously such gains were eligible for a dividend payment. For 2008 our interim dividend payout of HK 76 cents is equivalent to 57% of our full year profit eligible for a dividend payment. As such, and in accordance with the policy, the Board recommends not to pay out a final dividend for 2008. The Group will continue to husband its cash so as to be better able to invest in the right opportunities when they arise.

Outlook

We believe 2009 will be a very tough year for owners and operators of dry bulk tonnage, especially if the global economy deteriorates further. In the short term, some replenishment of depleted iron ore stockpiles may temporarily lift rates but we see little chance for a sustained revival in iron ore trades, the primary driver of the highly influential capesize sector, as importers anticipate further price reductions during the second quarter. Thereafter, an increase in ore movements (as marginal steel producers relying on low-grade domestic ores are pushed aside by more efficient mills relying on high-grade imports) combined with the start of the peak Latin American grain export season could again raise hopes, but continued slower industrial production and minimal or negative economic growth will most likely depress activity. Better access to trade finance and governments' efforts to increase infrastructure spending and development might also provide some stimulus. However, on balance, we do not expect any increase in demand for dry bulk shipping in 2009.

The supply side picture, in the form of an orderbook comprising some 70% of the fleet afloat, offers no encouragement. Whilst we have recently seen a revival in demolition of older vessels and increased delays and cancellations of newbuilding vessels, the growth in vessel supply is expected to swamp demand.

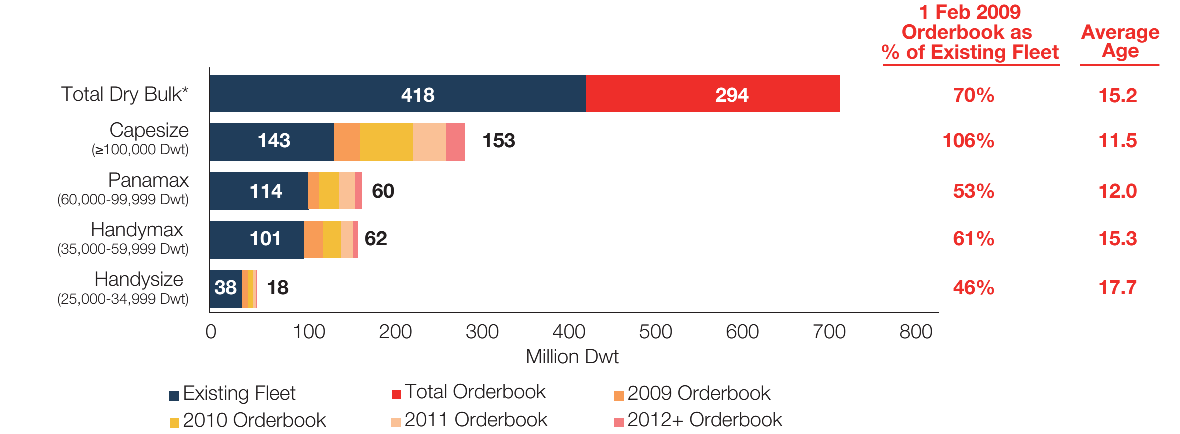
There is some mitigation of the gloom on the supply side in the form of much higher scrapping: 6.4 million deadweight tonnes of older vessels were demolished in the three months from November 2008 to January 2009, more than was scrapped in the five years prior to November 2008. In addition, newbuilding orders in the last quarter of 2008 ground to a halt and significantly fewer newbuildings may deliver in the next few years than the orderbook would imply. Many shipyards are finding it difficult to construct and deliver newbuilding ships on schedule due to tight credit conditions. In addition, an increasing number of owners have chosen to avoid taking delivery where possible due to the drop in both earnings and vessel values. The financial crisis has also left many owners and shipbuilders without the necessary financing to be able to satisfy their newbuilding commitments and a number of shipyards have already been subject to restructuring and bankruptcy.

Despite these factors, however, we still expect vessel supply to remain too high and for rates to remain depressed for the foreseeable future.

Opportunities are expected to arise from the financial and shipping crises. A prolonged depressed market might lead to the failure of weaker owners and operators and offer the stronger ones the chance for industry consolidation via vessel and fleet management or acquisitions.

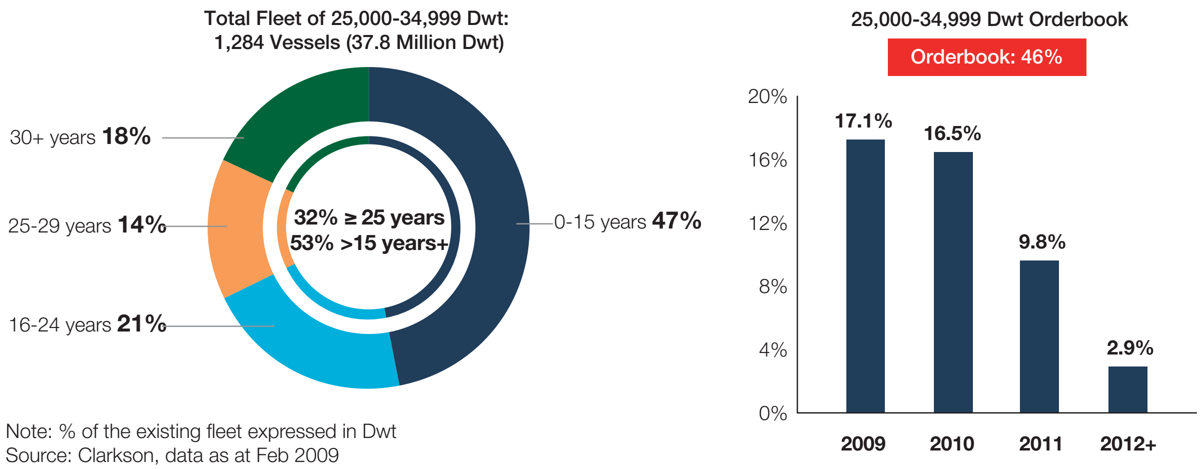
In conclusion, Pacific Basin faces the very challenging market with a strong balance sheet, a diverse range of shipping activities and a proven operating model in our core business. These attributes will help us to navigate the economic storm and take full advantage of the growth opportunities that will arise.

Dry Bulk Orderbook



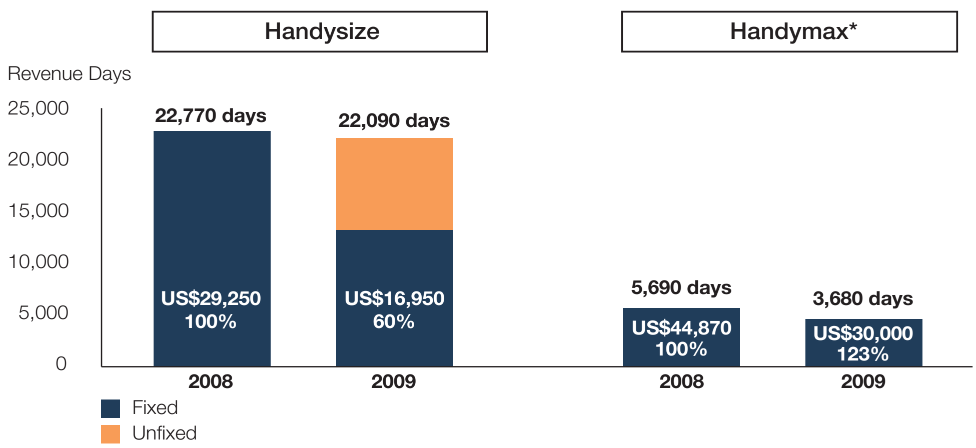
* Total dry bulk fleet is defined as dry bulk vessels over 10,000 Dwt
Source: Clarkson

Age Profile of Handysize Fleet (25,000-34,999 dwt)



Note: % of the existing fleet expressed in Dwt
Source: Clarkson, data as at Feb 2009

Contract Coverage and Daily TCE



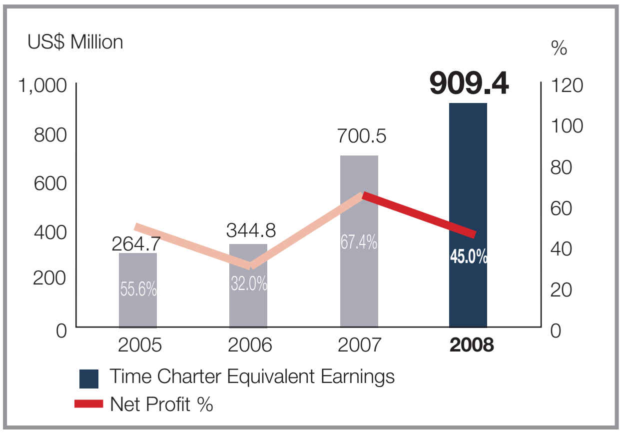
* Excludes two handymax vessels on long term charter

FINANCIAL REVIEW

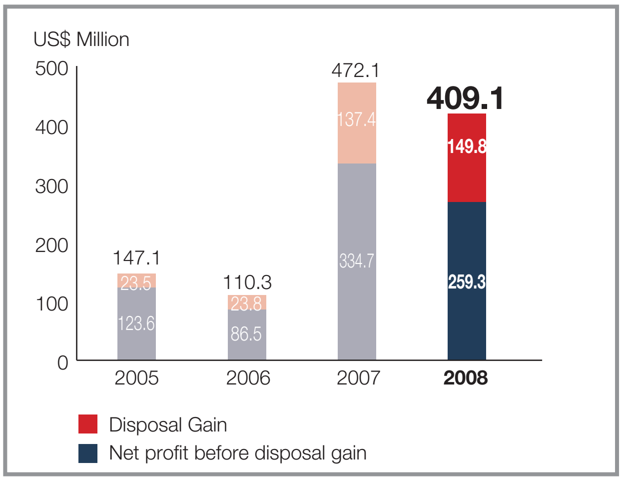
- *Net Profit was US$409 million, including US$150 million vessel disposal gains and US$138 million charges for one-off charter-hire payments, provisions and impairments*
- *Total assets increased 41% to US$2,331 million*
- *Cash position increased 58% to US$1,024 million creating a net cash position of US$176 million*

- *Fully funded capital commitments of US$433 million in non-dry bulk vessels and US$130 million in dry bulk vessels*
- *Return on average equity employed during the year was 35%*

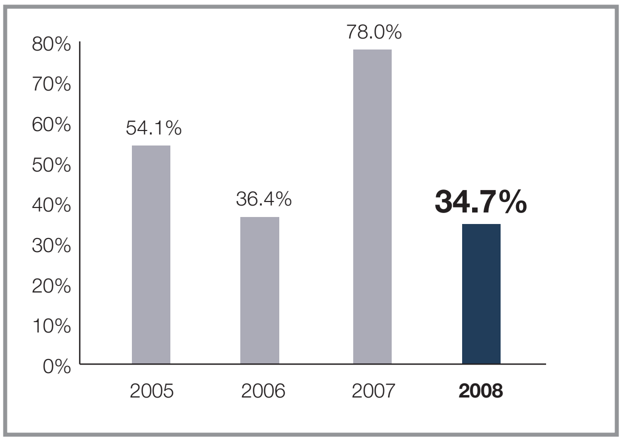
Time Charter Equivalent Earnings Versus Net Profit Margin



Net Profit



Return on Average Equity Employed during the Year



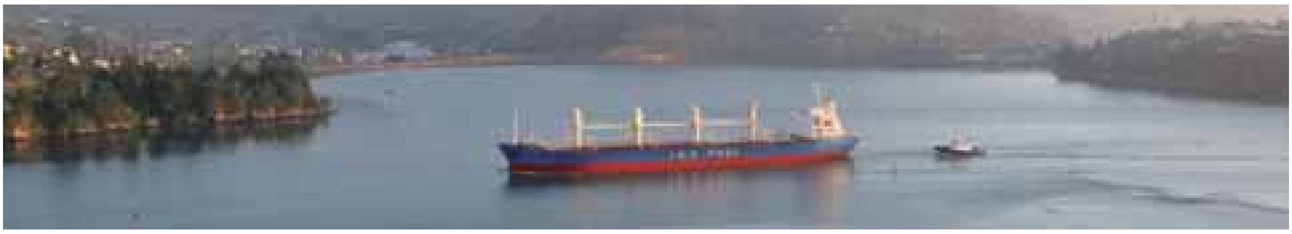
Revenue in 2008 was US$1,690.9 million (2007: US$1,177.3 million), up 43.6%. Time charter equivalent earnings, ports, towage and maritime management services income was US$909.4 million (2007: US$700.5 million), up 29.8%.

Profit attributable to shareholders was US$409.1 million (2007: US$472.1 million), down 13.3% and includes gains on disposal of vessels of US$149.8 million (2007: US$137.4 million). The decrease in net profit was mainly due to an increase in blended vessel daily operating costs, one-off payments to early terminate certain time charter contracts, provision for chartered in vessel contracts that have average charter in rates above the likely earnings and the decrease in the fair value of other investments. These are balanced by higher daily charter rates, an increase in the number of vessels controlled in the fleet and an increase in gains on disposal of vessels.

Return on average equity of US$1,179.5 million (2007: US$605.3 million) was 34.7% (2007: 78.0%).

Income

The Group's dry bulk fleet generated US$1,642.7 million (2007: US$1,167.4 million) or 97.1% (2007: 99.2%) of revenue with the remaining 2.9% derived from ports, towage and maritime management services activities. Revenue is shown gross of voyage-related expenses, amounts payable to other pool members (based on the number of pool points attributable to their vessels) and changes in the fair value of bunker swap contracts. Voyage-related expenses primarily related to commissions, bunkers, results of bunker swap contracts, port-related costs and charter-hire expenses of short term chartered vessels.



The following table summarises the change in the time charter equivalent and other earnings:

US$ Million	Handysize	Handymax	Other	Total
2007	520.3	167.7	12.5	700.5
Change in revenue days	61.9	24.6	–	86.5
Change in daily charter rates	45.0	44.0	–	89.0
Other	–	–	33.4	33.4
2008	**627.2**	**236.3**	**45.9**	**909.4**

The table below shows the handysize and handymax operating performance during the year:

	2007	1H08	2H08	2008	YOY % change
Handysize					
Revenue days	20,100	**11,540**	**11,230**	**22,770**	+ 13%
Daily charter rates (US$)	23,200	**32,460**	**25,950**	**29,250**	+ 26%
Daily vessel operating costs (US$)	10,240	**12,840**	**13,590**	**13,210**	+ 29%
Handymax					
Revenue days	4,870	**2,900**	**2,790**	**5,690**	+ 17%
Daily charter rates (US$)	30,040	**46,100**	**43,590**	**44,870**	+ 49%
Daily vessel operating costs (US$)	23,050	**32,940**	**38,120**	**35,460**	+ 54%

Note 1: The above vessel operating costs exclude the one-off payments to early terminate certain time charter contracts and the provision for chartered in vessel contracts.

Note 2: The above handymax performance excludes two vessels which are on long term charter at a daily rate of US$8,460 and for which the daily vessel cost is US$8,530.

Direct Costs

Direct costs in 2008 were US$544.6 million (2007: US$316.0 million). The bulk of the increase was represented by charter-hire expenses for vessels under operating lease which increased to US$388.5 million (2007: US$202.2 million), which reflects a 42.6% rise in the average number of vessels chartered under operating leases, and a 38.7% increase in the average daily charter rate.

Depreciation expenses remained at US$36.1 million (2007: US$36.0 million).

Operating costs for owned and finance leased vessels, which includes crew related, spares, lubricating oil and insurance costs, increased to US$62.8 million (2007: US$45.1 million). This was mainly due to an increase in operating costs for the towage businesses of US$14.4 million as the Group continued to expand in this area, as well as an increase in crew wages and insurance costs for the dry bulk vessels.

Direct costs also included the cost of maritime management services, and an overhead allocation of US$54.0 million (2007: US$30.4 million) representing shore based staff costs, office and related expenses directly attributable to the management of the dry bulk fleet, ports, towage and maritime management services activities. The increase was mainly due to the increase in the number of staff who are engaged in ports, towage and maritime management services activities.

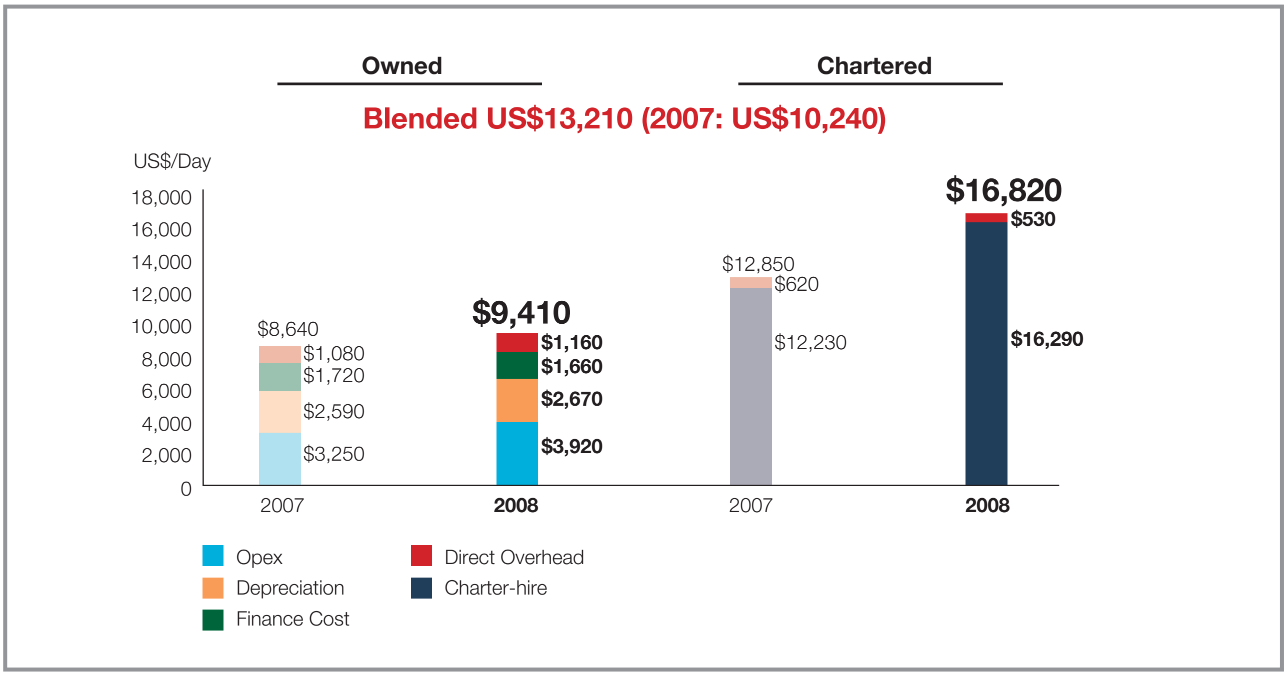
Revenue days and vessel days of our dry bulk vessels can be analysed as follows:

		2007			**2008**	
	Owned	Chartered	Total	**Owned**	**Chartered**	**Total**
Handysize						
Vessel days	12,560	7,730	20,290	**11,200**	**11,790**	**22,990**
Drydocking	(160)	–	(160)	**(170)**	**–**	**(170)**
Off-hire	(30)	–	(30)	**(50)**	**–**	**(50)**
Revenue days	12,370	7,730	20,100	**10,980**	**11,790**	**22,770**
Handymax						
Vessel days	730	4,140	4,870	**580**	**5,140**	**5,720**
Drydocking	–	–	–	**(30)**	**–**	**(30)**
Off-hire	–	–	–	**–**	**–**	**–**
Revenue days	730	4,140	4,870	**550**	**5,140**	**5,690**

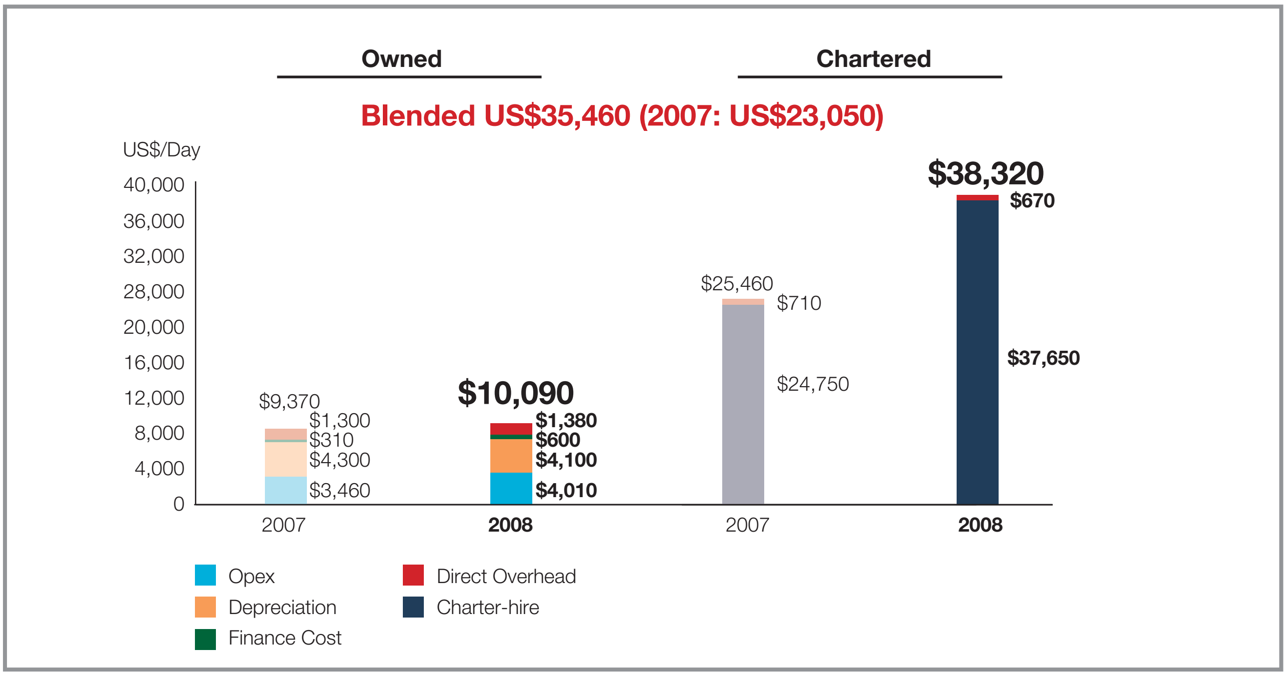
The fleet of owned vessels experienced average off-hire of was 1.5 days (2007: 0.8 days) per vessel per year in 2008.

Blended vessel daily operating cost for handysize was US$13,210 (2007: US$10,240), an increase of 29.0% over the previous year mainly due to higher charter-hire costs due in part to the sale and charter back of 12 vessels in 2007. The equivalent daily cost for handymax was US$35,460 (2007: US$23,050), an increase of 53.8% over the previous year mainly due to the higher charter-hire cost of vessels sourced from the market. Blended vessel daily operating costs include an allocation of direct overheads and can be analysed between owned and chartered costs as follows:

Handysize Vessel Daily Operating Costs



Handymax Vessel Daily Operating Costs



Gains on Disposal of Property, Plant and Equipment

Gains on disposal of property, plant and equipment totalled US$149.8 million (2007: US$137.4 million). The Group completed the sale and lease back of 3 vessels and sold another 5 vessels. Proceeds from these sales of US$313.5 million were used to repay associated vessel debt facilities of US$72.3 million, to fund investments and to increase general working capital. In accordance with HKAS 17 "Leases", operating lease accounting has been adopted for these sale and lease back transactions with the vessels being treated as sold, the gains or losses on disposal being recognised immediately on completion, and subsequent charter-hire payments being recognised as expenses.

Towards the end of the year, contracts were entered into to sell 3 further vessels of which 1 is leased back. In addition, by the year end, negotiations commenced on the sale of 2 other vessels of which 1 has been agreed as at the reporting date. 3 disposals have already been completed as at the reporting date while the remaining 2 are expected to complete in the first half of 2009. An impairment loss for these vessels of about US$19.5 million has been provided for in other expenses.

Other Income

Movements in the fair value of receipts from forward freight agreements amounted to US$132.9 million (2007: US$50.9 million).

During the year, the Group invested in convertible bonds and shares of Green Dragon Gas Limited, a UK, AIM market listed energy company. The Group subsequently exercised the conversion option of the bonds into shares and recognised a gain on fair value of the convertible bond of US$9.0 million.

During the year, the Group repurchased convertible bonds at a discount with an aggregate face value of US$65.8 million, making a gain of US$20.2 million.

The Group invested in the shares of other listed companies. The increase in the fair value, dividends and gains from the sale of these financial assets and investments amounted to a gain of US$0.7 million (2007: US$29.7 million).

Other Expenses

Movements in the fair value of payments for forward freight agreements amounted to US$55.9 million (2007: US$102.8 million). Taking into account the movements in fair value of receipts of US$132.9 million included in other income above, the net movement in the fair value of forward freight agreements was a benefit of US$77.0 million (2007: expenses US$51.9 million).

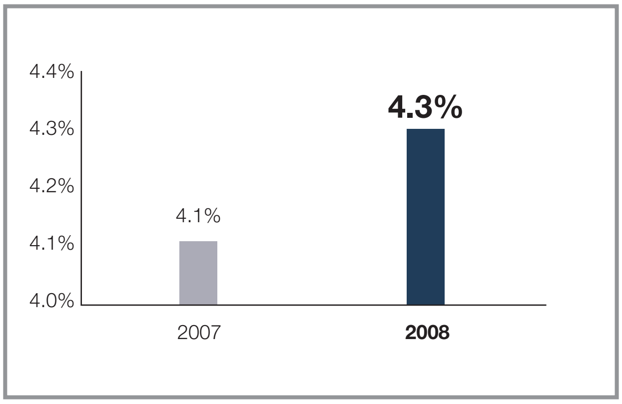
The decrease in the fair value of shares of other listed shipping companies amounted to US$4.4 million, arising from the sale in January 2008 of shares held at the start of the year. In addition, the Group made a provision for impairment of US$35.5 million for its equity investment in Green Dragon Gas Limited, based on the year end quoted value of this company. Taking into account the increase in the fair value of the convertible bonds of US$9.0 million included in other income, and interest income from the convertible bonds of US$3.4 million included in finance income, the net result was an expense of US$23.1 million. The investment in Green Dragon Gas Limited had a fair value of US$36.8 million as at 31 December 2008.

The Group made one-off payments in December 2008 of US$41.8 million (2007: nil) to certain shipowners from whom the Group has chartered in a number of handysize vessels (US$28.8 million) and handymax vessels (US$13.0 million) so as to early terminate their time charter contracts and simultaneously to enter into new time charter contracts at market rates in respect of those vessels. Separately, the Group made a US$53.9 million (2007: nil) provision for the remaining charter periods of time charter contracts substantially all of which expire in the next three years and have charter rates higher than the expected earnings during those periods.

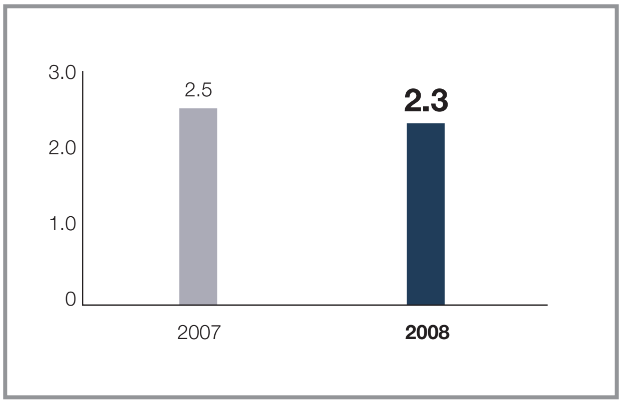
General and Administrative Expenses

The Group's total administrative expenses of US$72.0 million (2007: US$48.2 million) are split between direct expenses for our shore based overhead costs of US$54.0 million (2007: US$30.4 million) and general and administrative expenses of US$18.0 million (2007: US$17.8 million). The increase was largely due to the increase in the number of staff who are engaged in ports, towage and maritime management services activities and to a lesser extent the increase in the number of staff directly involved in the management of the expanded fleet. It also included the cost of redundancy at the end of the year for a number of staff arising from the global economic slowdown.

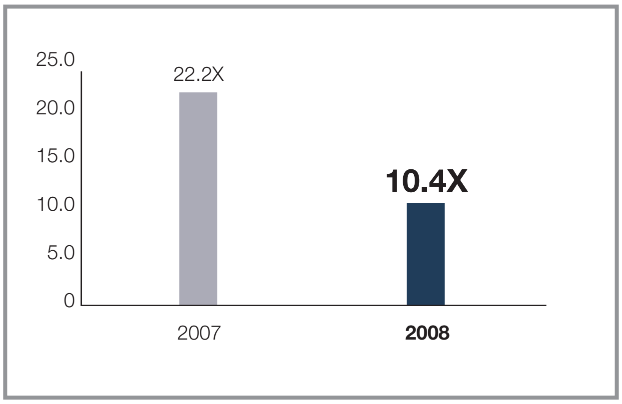
▶ *Administrative Expenses as a Percentage of Revenue*



▶ *Number of Full Time Shore Based Staff per Vessel*



▶ *Interest Coverage*



Total administrative expenses as a percentage of revenue slightly increased to 4.3%. The number of full time shore based staff per owned, chartered and managed vessel decreased from 2.5 to 2.3. This excludes the staff who are engaged in ports, towage and maritime management services activities.

Share of Profits Less Losses of Jointly Controlled Entities

The Group's share of profits less losses of jointly controlled entities totalled US$3.6 million (2007: US$8.3 million). This mainly represented the share of results of the vessel "Captain Corelli" of US$4.8 million (2007: US$3.6 million), the Group's share of US$1.9 million after restructuring costs (2007: US$4.3 million) in Fujairah Bulk Shipping L.L.C., a joint venture with the Government of Fujairah involved in the production, supply and transportation of aggregates in the Middle East, and the share of losses of US$3.2 million in Longtan Tianyu Terminal Co. Ltd, a business involved in the operation of a dry bulk terminal in Nanjing that formally commenced operations in February 2008. Negotiations for the sale of the "Captain Corelli" had commenced by the year end and a contract has been subsequently entered into which has already been completed as at the reporting date.

Finance Income

Finance income of US$26.0 million (2007: US$6.3 million) represented primarily US$21.3 million (2007: US$4.8 million) of bank deposit interest income and US$3.4 million (2007: nil) of interest from the debt portion of our investment in the convertible bonds issued by Green Dragon Gas Limited.

Financing

Finance costs of US$48.1 million (2007: US$24.1 million) included interest payments of US$4.4 million (2007: US$1.9 million) in relation to bank borrowings used to finance the Group's owned vessels, finance charges of US$17.0 million (2007: US$19.9 million) in relation to vessels under finance lease arrangements and interest expenses of US$19.1 million (2007: US$0.6 million) in relation to convertible bonds issued by the Group.

Financing – Interest Payments on Bank Borrowings

The US$2.5 million increase in interest payments on bank borrowings to US$4.4 million was primarily due to the increase in the average bank borrowings outstanding to US$95.8 million in 2008 (2007: US$30.1 million). Bank borrowings are subject to floating interest rates but the Group manages these exposures partially by way of interest rate swap contracts. The average interest rate before hedging on bank borrowings was approximately 4.3% for the year (2007: 5.7%).

Financing – Finance Charges

Finance charges of US$17.0 million (2007: US$19.9 million) represented interest payments on the Group's finance leased vessels. Aggregate current and long term finance lease liabilities as at 31 December 2008 were US$213.3 million. The fixed equal quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities in the balance sheet and finance charges in the income statement. Finance charges can be expressed as interest rates, fixed for the period of the leases. The average interest rate on finance leases was approximately 6.8% during the year (2007: 6.7%).

Financing – Interest Expenses on Convertible Bonds

In December 2007, the Group issued US$390 million, 3.3% per annum coupon, guaranteed convertible bonds due 2013. Interest expenses on the bonds of US$19.1 million (2007: US$0.6 million) represented the calculation of the effective interest rate of the bonds of 5.7%.

During the year, the Group repurchased convertible bonds with an aggregate face value of US$65.8 million. After the transactions, convertible bonds with a face value of US$324.2 million remain outstanding at 31 December 2008.

Tax

Shipping income from international trade is either not subject to or exempt from taxation according to the tax regulation prevailing in the countries in which the Group operates. Shipping income from towage and non-shipping income is subject to tax at prevailing rates in the countries in which these business operates.

Cashflow

At 31 December 2008, the Group had net working capital of US$1,032.1 million. The primary sources of liquidity comprised bank balances and cash of US$1,023.7 million (principally denominated in US dollars) and unutilised committed and secured bank borrowing facilities of US$35.2 million. The Group's primary liquidity needs are to fund general working capital requirements (including lease and other short term financing commitments), fleet expansion and other capital expenditure. Dividends are funded from net cash generated from operating activities.

Details of the Group's cash flows are set out in the "Consolidated Cash Flow Statement" section of this Annual Report.

Loading logs in New Zealand

Financial Instruments

The Group is exposed to fluctuations in interest rates, bunker prices, freight rates and foreign currencies in relation to contracts designated in foreign currencies. The Group manages these exposures by way of interest rate swap contracts, bunker swap contracts, forward freight agreements, and forward foreign exchange contracts respectively. Further details are included in Note 13 and Note 24 to the audited financial statements in this Annual Report.

At 31 December 2008, the forward foreign exchange contracts and one of the interest rate swap contracts qualified as cashflow hedges. Accordingly, the change in the fair value of these instruments during the year then ended was recognised directly in the hedging reserve.

Bunker swap contracts and forward freight agreements do not qualify for hedge accounting mainly because the contract periods, which are in calendar months, do not exactly coincide with the periods of the physical contracts. Terms of one of the other interest rate swap contracts also do not qualify for hedge accounting. Income or expenses arising from a change in the fair value of these contracts were recognised in the income statement under (i) finance costs for interest rate swap contracts; (ii) bunkers, port disbursements and other charges for bunker swap contracts; and (iii) other income and other expenses for forward freight agreements. The adoption of HKAS 39 "Financial Instruments: Recognition and Measurement" has the effect of shifting the estimated results of these future contracts into the current period, which in 2008 created a net unrealised non-cash income of US$6.9 million, whereas the cashflows of these contracts will occur in future reporting periods.

In 2008, the Group recognised net realised derivative income of US$16.2 million and net unrealised derivative income of US$6.9 million. This resulted in a total income for the year of US$23.1 million. These are further analysed as follows:

US$ Million	2007	**Realised**	**Unrealised**	**2008**
Income				
– Interest rate swap contracts	0.1	**–**	**–**	**–**
– Bunker swap contracts	38.0	**25.0**	**0.2**	**25.2**
– Forward freight agreements	50.9	**54.4**	**78.5**	**132.9**
	89.0	**79.4**	**78.7**	**158.1**
Expenses				
– Interest rate swap contracts	(1.5)	**(0.8)**	**(5.9)**	**(6.7)**
– Bunker swap contracts	(2.6)	**(13.2)**	**(59.2)**	**(72.4)**
– Forward freight agreements	(102.8)	**(49.2)**	**(6.7)**	**(55.9)**
	(106.9)	**(63.2)**	**(71.8)**	**(135.0)**
Net				
– Interest rate swap contracts	(1.4)	**(0.8)**	**(5.9)**	**(6.7)**
– Bunker swap contracts	35.4	**11.8**	**(59.0)**	**(47.2)**
– Forward freight agreements	(51.9)	**5.2**	**71.8**	**77.0**
	(17.9)	**16.2**	**6.9**	**23.1**

Indebtedness

The indebtedness of the Group at year end, principally denominated in US dollars, comprised finance lease liabilities of US$213.3 million, bank borrowings of US$332.8 million and the debt component of convertible bonds of US$301.7 million. The current portion of indebtedness included in this, repayable within one year from the balance sheet date, is US$14.0 million of finance lease liabilities and US$44.7 million of bank borrowings.

Finance lease liabilities decreased to US$213.3 million (2007: US$289.6 million) as a result of repayments and prepayments of finance lease liabilities following the sale of 3 finance leased vessels during the year. Bank borrowings (net of deferred loan arrangement fees) increased to US$332.8 million (2007: US$19.6 million) as a result of drawing down facilities during the second half of the year to ensure availability of cash. The debt component of convertible bonds decreased to US$301.7 million (2007: US$351.1 million) primarily as a result of the repurchase and cancellation of a portion of the bonds during the year.

As at 31 December 2008, all outstanding finance lease liabilities will expire between 2015 and 2017, all outstanding secured bank borrowings will expire between 2012 and 2018. All outstanding convertible bonds will expire in 2013, however bondholders have the option to redeem the bonds in February 2011.

The Group's bank borrowings were secured by mortgages over 26 vessels with a total net book value of US$391.4 million and an assignment of earnings and insurances in respect of these vessels.

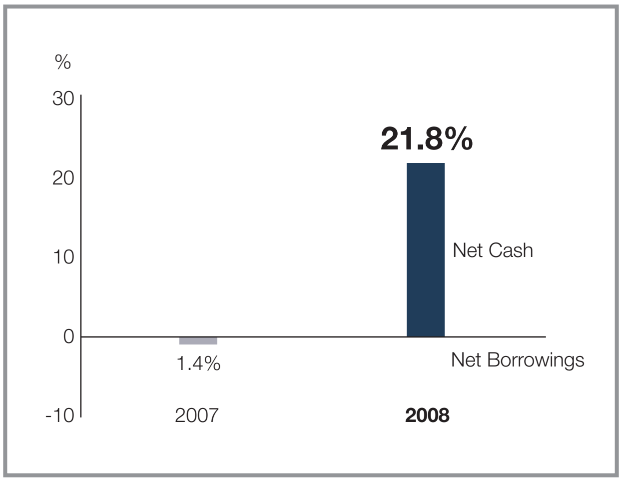
The Group had unutilised committed bank borrowing facilities of US$35.2 million available to finance the Group's newbuilding commitments and other vessel acquisitions.

Net Cash

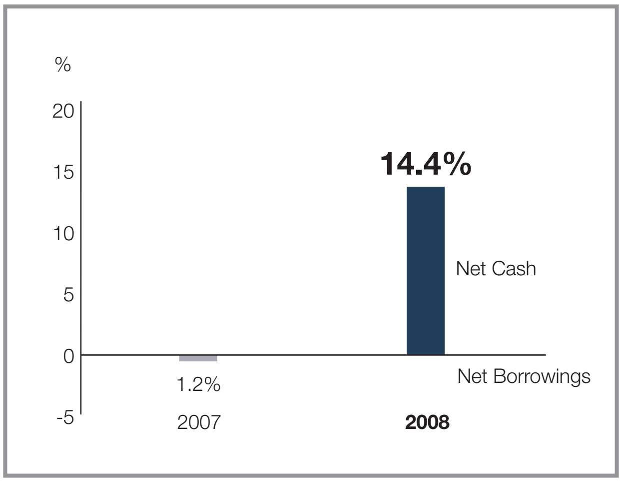
The Group had cash and bank balances of US$1,023.7 million at 31 December 2008 of which 50% benefited from government deposit insurance schemes and the balance in overnight deposits with A-rated financial institutions. The Group's cash benefited from the US$271.0 million net proceeds from the placement of 158,598,000 new shares in May 2008.

The Group's cash, net of bank borrowings, finance lease liabilities and convertible bonds, expressed as a percentage of property, plant and equipment (based on net book values) and vessel finance lease receivables was 21.8% (2007: net borrowings 1.4%).

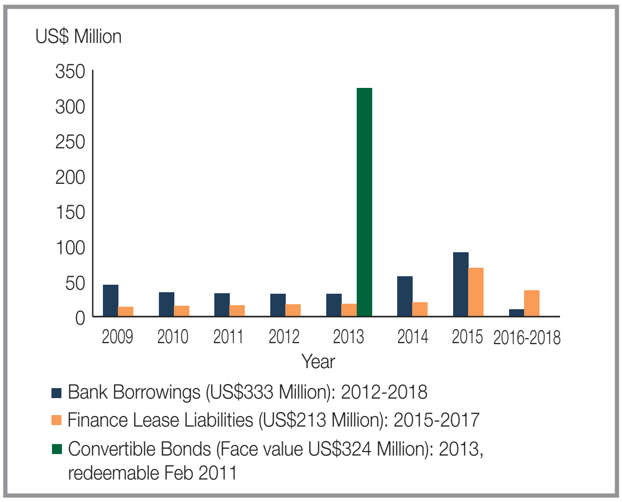
Net Cash/Borrowings to Book Value of Property, Plant and Equipment



Net Cash/Borrowings to Shareholders' Equity



Repayment of Long Term Financing



Lease Commitments

Lease commitments include handysize and handymax vessels chartered by the Group directly and by the Pools, namely Pacific Basin-IHC and Pacific Basin-IHX, and other vessels chartered by the Group directly, namely RoRo and post panamax vessels. Vessel operating lease commitments stood at US$593.4 million (2007: US$678.5 million), as illustrated in the table below. These commitments exclude vessels under finance leases which are included as part of property, plant and equipment. The decrease in lease commitments was mainly due to the lower number of dry bulk chartered days.

Lease Commitments (US$ Million)	**No later than one year**	**Later than one year but no later than five years**	**Later than five years**	**Total**
PB Handysize	125.7	156.2	60.7	342.6
Pacific Basin – IHC	0.6	–	–	0.6
Handysize subtotal	126.3	156.2	60.7	343.2
PB Handymax	93.7	40.9	–	134.6
Pacific Basin – IHX	9.3	–	–	9.3
Handymax subtotal	103.0	40.9	–	143.9
Handysize and Handymax subtotal	229.3	197.1	60.7	487.1
RoRo	–	39.5	–	39.5
Post panamax	–	16.8	50.0	66.8
Total	229.3	253.4	110.7	593.4

Of these commitments, US$343.2 million related to handysize vessels and US$143.9 million related to handymax vessels, with their respective days broken down as follows:

Lease Commitments (days)	**No later than one year**	**Later than one year but no later than five years**	**Later than five years**	**Total**
PB Handysize	9,590	13,360	4,850	27,800
Pacific Basin – IHC	100	–	–	100
Handysize subtotal	9,690	13,360	4,850	27,900
PB Handymax	3,650	1,330	–	4,980
Pacific Basin – IHX	840	–	–	840
Handymax subtotal	4,490	1,330	–	5,820
Handysize and Handymax total	14,180	14,690	4,850	33,720

A handysize newbuilding under construction at Jiangmen Nanyang Shipyard

As part of other expenses, the Group made a US$53.9 million provision in the year ended 31 December 2008 for the remaining charter periods of handysize time charter contracts substantially all of which expire in the next three years as the average chartered in rates are higher than the likely average rate for time charter equivalent earnings during those charter periods. No provisions were made for handymax time charter contracts.

The provision will be released back to the profit and loss account in the periods in which the charter payments for these vessels are due, as follows:

Year	US$ Million
2009	28.1
2010	21.1
2011	4.7
Total	53.9

The Group has commitments to 33,540 days under PB handysize finance leases and 32,780 days under PB handysize and PB handymax operating leases. The average contracted daily charter rates and total number of vessel days of our PB handysize and PB handymax vessels under operating leases and finance leases in each year, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements, are as follows:

	PB Handysize Operating leases		PB Handysize Finance leases		PB Handymax Operating leases	
Year	Average daily rate (US$)	Vessel days	Average daily rate (US$)	Vessel days	Average daily rate (US$)	Vessel days
2009	10,130	9,590	5,960	4,750	25,710	3,650
2010	9,160	6,180	5,960	4,750	30,090	1,110
2011	8,620	2,840	5,920	4,760	34,380	220
2012	11,090	2,510	5,960	4,750	–	–
2013	11,790	1,830	5,950	4,750	–	–
2014	12,310	1,460	5,940	4,750	–	–
2015	12,400	1,380	5,910	2,590	–	–
2016	12,480	820	5,970	1,830	–	–
2017	12,850	390	5,840	610	–	–
2018	13,000	370	–	–	–	–
2019	13,000	370	–	–	–	–
2020	13,000	60	–	–	–	–
Total		27,800		33,540		4,980

These daily rates represent the average effective chartered in rate after the US$41.8 million one-off payments to early terminate certain time charter contracts and the release of the US$53.9 million provision for the chartered in vessel expenses in the year in which charter payments are due. The effect of these charges on the average daily charter rates is shown in the table below.

Year	PB Handysize Operating leases Before charges (US$)	PB Handysize Operating leases After charges (US$)	PB Handymax Operating leases Before charges (US$)	PB Handymax Operating leases After charges (US$)
2009	15,260	10,130	29,000	25,710
2010	13,870	9,160		
2011	10,800	8,620		
2012	11,250	11,090		

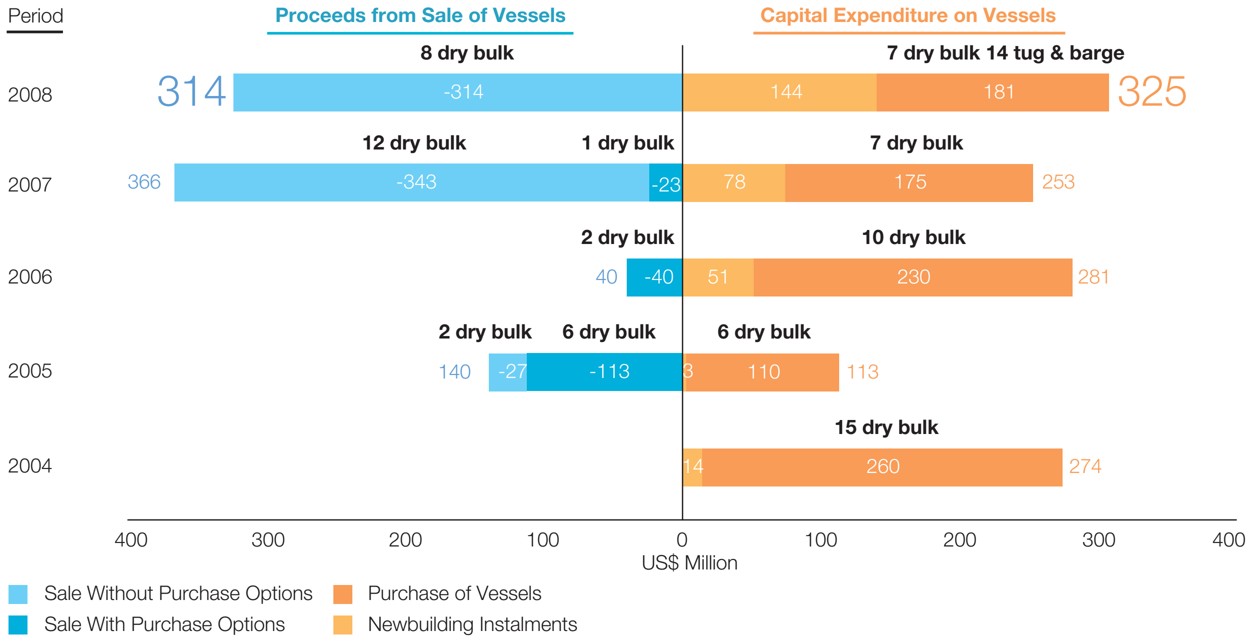
Certain lease agreements provide the Group with options to purchase the related vessels at predetermined times and exercise prices during the lease periods. The average exercise prices of the existing purchase options for both handysize vessels and handymax vessels in the earliest years in which these options may be exercised, along with the number of vessels and the average age of such vessels in that year, are as follows:

Earliest year in which options may be exercised	Vessel type	Number of vessels Finance lease	Number of vessels Operating lease	Average age of vessels (years)	Average purchase option exercise price (US$ Million)
2009	Handysize	13	8	4	18.7
2010	Handysize	–	1	3	22.5
	Handymax	–	1	5	17.7
2016	Handysize	–	1	5	45.9
	Post Panamax	–	1	5	66.9
Total		13	12		

Capital Expenditure, Property, Plant and Equipment and Commitments

During 2008, capital expenditure amounted to US$338.1 million and mainly comprised the purchase of 7 handysize vessels and 14 tugs and barges as well as installments on 15 vessels, including handysize, handymax, RoRo and tug newbuildings. Cash used for the purchase of vessels and proceeds from the sale of vessels is illustrated in the graph below.

Proceeds from Sale of Vessels and Capital Expenditure on Vessels



Note: In 2005, the Group sold and chartered back 17 handysize vessels for US$318.0 million. These were classified as finance leases and remained on the balance sheet as property, plant and equipment.

At 31 December 2008, the Group had property, plant and equipment of US$794.6 million, of which US$607.6 million related to 29 delivered handysize vessels with an average net book value of US$17.7 million, 1 delivered handymax vessel and 22 tugs and barges.

At 31 December 2008, the Group had non-cancellable vessel commitments of US$429.3 million and other non-vessel capital commitments of US$16.5 million. The vessels are for delivery to the Group between January 2009 and July 2011. They are shown in the table below.

Vessel Capital Commitments (US$ Million)	**No.**	**2009**	**2010**	**2011**	**Total**
Handysize newbuildings	5	59.9	–	–	59.9
Handymax newbuilding	1	26.0	–	–	26.0
Post panamax newbuilding	1	–	21.7	22.1	43.8
Tug newbuildings	5	25.4	4.8	–	30.2
RoRo newbuildings	4	113.7	131.1	24.6	269.4
	16	225.0	157.6	46.7	429.3

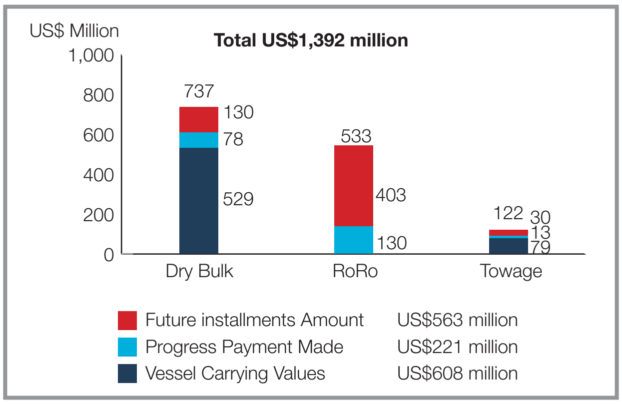
Note: If options to purchase 2 RoRo newbuildings are exercised, capital expenditure would be as follows

RoRo newbuildings	2	–	133.6	–	133.6
	18	225.0	291.2	46.7	562.9

These commitments will be financed by cash generated from the Group's operations, existing cash and additional long term borrowings to be arranged as required. Where the commitments are in currencies other than the functional currencies of the underlying assets, the Group has entered into forward foreign exchange contracts to purchase the currencies at predetermined rates.

A combined view of the carrying value of owned vessels, vessels under construction and committed vessel expenditure is shown in the following graph:

A Combined View of Vessel Carrying Values and Commitments



Staff

At 31 December 2008, the Group employed a total of 363 (2007: 292) full time shore based staff mainly in offices in Hong Kong, Shanghai, Beijing, Dalian, Nanjing, Tokyo, Seoul, Singapore, Manila, Cebu, Mumbai, Karachi, Dubai, Fujairah, Melbourne, Sydney, Auckland, London, Liverpool, Bad Essen, Houston, Vancouver and Santiago. The increase was largely due to the increase in the number of staff who are engaged in ports, towage and maritime management services activities.

The Group incurred total staff costs (included in direct costs and general and administrative expenses as described earlier) of approximately US$51.7 million in 2008 (2007: US$36.0 million), representing 3.1% of the Group's revenue for the year (2007: 3.1%). The increase is discussed under general and administration expenses.

Remuneration of the Group's employees includes fixed basic salaries, discretionary cash bonuses (based on both the Group's and individual's performance for the year) and long term incentives through the Company's Long Term Incentive Scheme ("LTIS"). The LTIS allows the Company to award eligible participants with restricted share awards and share options.

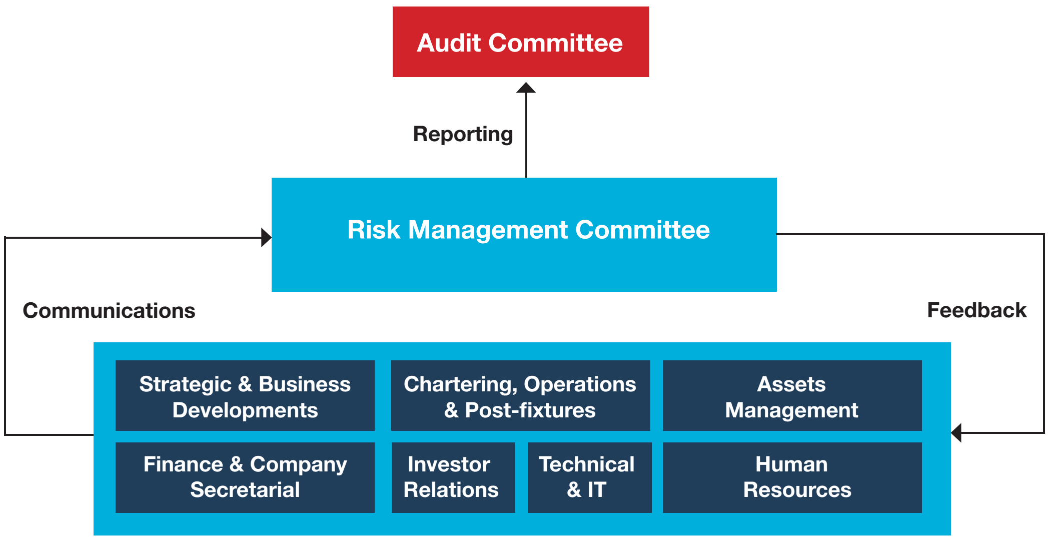
The Group's principal retirement benefit scheme is the Mandatory Provident Fund Scheme (the "MPF Scheme"), a defined contribution scheme provided under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those staff employed under the jurisdiction of the Hong Kong Employment Ordinance.

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

RISK MANAGEMENT

The purpose of risk management is to ensure that management understands the risks the Group is exposed to and acts to mitigate these risks where possible.

The financial results of the Group are sensitive to a variety of risks. The Risk Management Committee, headed by the Company's Deputy Chief Executive Officer, actively identifies and reviews significant risks to the Group and assesses the sensitivity of Group earnings to those risks. The Group's approach to assessing and managing risks is further outlined in the Internal Controls section of the Corporate Governance Report.



The risks that the Group faces can be broadly divided into market risks, financial risks and operational risks.

Market Risks

1. Earnings Volatility

The Group's operating revenue principally comprises income generated from voyages carried out by its fleet of vessels. Such income is highly dependent on prevailing market conditions, as reflected in freight rates.	**How do we manage our risk?** Through long term cargo contracts, we reduce volatility in our achieved freight rates. Cargo contracts typically have a term of 12 months to 36 months. We rigorously measure and manage our coverage levels. As at 20 February 2008, we had covered 60% of our 22,090 handysize revenue days of 2009 and 123% of our 3,680 handymax revenue days of 2009, equating to approximately 72% of our 2009 handysize equivalent revenue days. Our future revenue depends on our counterparties performing their obligations under these long term cargo contracts. In addition, the Group enters into cargo contracts with a variety of international customers who operate in a wide range of industries across the world. Our diversified customer base prevents reliance on a single source of income and our top 15 customers account for around 28.5% of our revenue. For more details on counterparty risk management, please refer to the Financial Risks section. The Group complements its portfolio of contracts with limited use of outward time charters and Forward Freight Agreements ("FFAs") to further reduce volatility and its exposure to the freight market. For more details on the management of FFAs, please refer to the Financial Risks section.

2. Volatility in Vessel Prices

The Group believes in the merits of being able to provide high quality vessel services to customers. In order to do so it is important to maintain a large and modern fleet through contracting newbuildings and through transactions in the second hand markets. As a result of these transactions, the Group risks changes in newbuilding prices and second hand vessel values.	**How do we manage our risk?** The Group evaluates potential investments and divestments based on available relevant market information and estimated future profits and residual values, so as to maximise returns to shareholders. The Group considers the possible sale and charter back of vessels on terms which may also include options for the Group to repurchase the vessels at predetermined prices. Such sales carry the benefit of transferring the residual value risk of the vessels from Pacific Basin to third parties, whilst enabling the Group to maintain operational control of the vessels. In 2007 and 2008, we sold and chartered back a number of vessels for periods between one and four years. The Group contracts with leading and reputable shipyards, or with other yards whose performance under the newbuilding contracts is guaranteed by banks acceptable to the Group in the form of refund guarantees for payments made prior to the delivery of the vessels. At the end of 2008, the Group had seven (2007: 14) dry bulk newbuildings on order at Chinese and Japanese yards. In addition, we had four (2007: two) tug newbuildings on order at Vietnamese yards and six (2007: Nil) RoRo newbuilidngs at Danish and Korean yards. In the case of second hand vessel transactions, the Group evaluates the credit worthiness of its counterparties. When selling ships, sale contracts contain an industry standard clause of a 10%-20% pre-delivery deposit as security for the fulfilment of a buyer's obligation. When buying ships, the risk of non-delivery would be covered by an arrest of the vessel in question.

3. Bunker Price Volatility

The Group's results may be significantly affected by the fluctuation of bunker prices as it is a significant cost to the Group.	**How do we manage our risk?** To mitigate the risk arising from future oil price fluctuations, the Group hedges its expected future bunker requirement for each long term cargo contract by entering into bunker swap contracts or bunker forward contracts at the time of negotiation of each long term cargo contract. As at 31 December 2008, the Group had hedged all of its estimated bunker requirements under signed cargo contracts amounting to an aggregate of approximately 210,000 metric tonnes for 2009 to 2012.

4. Interest Rate Risk

The Group's interest rate risk is mainly associated with its interest-bearing bank borrowings and finance lease liabilities.	**How do we manage our risk?**
	The Group's overall policy on managing interest rate exposure is to have a mixed portfolio of borrowings subject to floating and fixed interest rates. For interest-bearing bank borrowings, we manage interest rate risk by entering into interest rate swap contracts with our lending banks. In 2008, this has resulted in an effective fixed hedged interest rate of approximately 5.6% for those bank borrowings which were hedged. For finance lease liabilities, we pay fixed bareboat hire payments which are based on fixed interest rates over the life of the leases, giving an effective fixed interest rate which ranges from approximately 6.6% to 7.0% (2007: approximately 6.6% to 8.2%). The Group performs regular analysis on interest rate exposure by considering refinancing, alternative financing and hedging.

5. Foreign Exchange Risk

The functional currency of most of the operating companies of the Group is the United States Dollars, as the majority of our transactions are denominated in this currency. A major part of the Group's exchange rate fluctuation risk arises from the purchase of vessels by its operating companies in currencies such as Japanese Yen, Euros and United States Dollars that are different from their functional currencies.	**How do we manage our risk?** For daily operations, the majority of our income and disbursements are in US dollars. Local costs of our offices outside Hong Kong represent an insignificant portion of our total expenses. For vessel acquisitions, at the time a vessel is contracted, the Group hedges its future foreign currency payment instalments to the counterparties by entering into forward foreign exchange contracts with our relationship banks on terms that match the payment schedule of those contracts until delivery. For newbuilding vessels, typically these contracts range between one and three years depending on the length of the construction periods of the vessels, and our current furthest exposure extends to Year 2010. For businesses whose functional currencies are not in US dollars, we apply the same principles in managing their foreign exchange exposure. As at 31 December 2008, the Group had outstanding forward foreign exchange contracts with banks to buy approximately JPY 2.4 billion and simultaneously sell US$22.5 million for the acquisition of certain vessels denominated in Japanese Yen. These contracts expire through July 2009. As at 31 December 2008, the Group had outstanding forward foreign exchange contracts with banks to buy approximately EUR 15.1 million and simultaneously sell AUD26.7 million for the acquisition of certain vessels denominated in Euros. These contracts expire through February 2010. As at 31 December 2008, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$133.6 million and simultaneously sell EUR 88.4 million for the acquisition of certain vessels denominated in United States Dollars. These contracts expire through September 2010.

6. Business Acquisition

The Group has expanded into new business areas that are outside its traditional dry bulk area of expertise. This exposes us to new business risks which management needs to understand, assess and manage.	**How do we manage our risk?** New investments are analysed and presented to the Executive Committee of the Board, which decides whether the balance of risk and reward is appropriate for the Group. For new investments, operational management reporting and financial reporting are integrated through an interactive process undertaken during the initial stage of operation. This involves a review of the budgeting and forecasting process, integration of the accounting reporting system with the Group's systems and the identification of the business risk issues and implementation of an appropriate risk control and reporting system.

Financial Risks

1. Use of Forward Freight Agreements ("FFAs")

The Group enters into FFAs on a limited basis as a method of hedging part of its forward freight exposure, where a ship is not yet booked with a 'physical' cargo contract or where a 'physical' cargo contract is not yet covered by a vessel commitment.	**How do we manage our risk?** To manage the use of FFAs, the Board sets out policies under which the Group enters into FFAs on a limited basis. Day to day responsibility of monitoring adherence to the policy is delegated to the Executive Committee. The policies clearly define authority levels and limits for hedging purposes, segregation of duties, access rights to the database system and reporting requirements. FFAs normally run for a period of three to twelve months. During the year ended 31 December 2008, the Group sold FFAs with a contract value of US$106.5 million (2007: US$110.7 million) and bought FFAs with a contract value of US$8.0 million (2007: US$86.4 million).

2. Counterparty Risk

The Group's counterparty risk primarily relates to its COAs, outward period charters and derivative contracts.	**How do we manage our risk?** The Group's gross losses from uncollected freight and charter-hire receivables amounted to 0.5% (2007: 0.1%) of profit attributable to shareholders in 2008. For trade counterparties, the Group has implemented the following measures to mitigate this risk: • Following industry practice, 95% to 100% of contracted freight is payable upon completion of loading, with the balance payable after completion of discharge. Additional revenue may arise from demurrage receipts relating to extensions of the voyage period, and is invoiced at completion of the voyage. • Fixing long term contracts with large agricultural, industrial and mining companies or companies with a successful track record and reputation. • Adopting and improving policies to assess the credit worthiness of customers to ensure vessels are chartered to customers with an appropriate payment history. Credit terms are normally not given to customers. For FFA counterparties, the Group manages the counterparty risk mainly by: • Trading with banks which have a minimum Standard & Poor's rating of A. • Trading through a clearing house, which acts as a third party to settle trading accounts and maintain margin monies. • Assessment of counterparties in the same manner as applied for trade counterparties, where contracts were previously entered into via the over-the-counter market. We now substantially trade through the clearing system. For bunker hedge counterparties, the Group manages the counterparty risk by mainly trading with creditworthy oil companies and trading houses which have a minimum Standard & Poor's rating of A.

3. Liquidity Risk

Liquidity risk increases due to the stringent credit market.	**How do we manage our risk?**
	The Group manages its liquidity risk to ensure it has sufficient liquid cash to meet its payment obligations as they fall due. The Group maintains good working relations with its lending banks and ensures ongoing compliance of covenants as stipulated in the loans and finance lease agreements. The Group has taken the following specific measures to manage its liquidity risk: • The majority of the Group's cash is deposited with financial institutions with a minimum Standard & Poor's rating of A and their maturity ranges from overnight to three months. The Group currently has a preference for financial institutions where bank deposits are protected by the government deposit insurance schemes. • The Group also invests in bank managed liquidity funds which invest no more than 2% of their underlying cash in any one investment all of which are rated at least A (or its equivalent) from a recognised credit rating agency such as Standard & Poor's. The Group maintains a balance between holding cash in financial institutions and investing in liquidity funds, having regard to interest rates and perceived risk so as to ensure risk is well spread. • The Group closely monitors its exposure to liquidity risk by reviewing the cash position on a weekly basis. It analyses the timing of the drawdown and repayment of bank loans and has dedicated personnel to ensure loans are serviced on a timely and accurate manner. • The Group obtains committed long term funding to support its business operations.

Operational Risks

1. Insufficiently Experienced Staff

The Group is heavily reliant on the quality of its sea and shore based staff to minimise the operational risk of grounding, collision, pollution or violation of Group and statutory regulations. Such events could result in financial losses through loss of hire, cost of vessel repairs, third party claims and penalties for statutory violations or from loss of reputation caused by delay and customer dissatisfaction.	**How do we manage our risk?** To achieve a high standard of ship operation through good management systems, the Group has established the internal Pacific Basin Management System which observes the requirements of the mandatory ISM Code, the voluntary International Standards ISO 9001, ISO 14001 and OHSAS 18001. In addition to annual internal audits of the Group and its fleet, the Group is audited annually for compliance with the standards by external auditors, Lloyds Register of Shipping. In order to maintain a stable and competitive sea and shore based staff team, Pacific Basin has implemented the following measures: • Sea staff are recruited from more than one country without placing undue reliance on one manning source. • We continue to invest in the training and development of sea and shore based staff. Policies in this regard include pre-joining briefing and training of officers, on board training of crew by the Fleet Training Superintendents, the provision of training seminars and courses ashore for Masters and officers, training manning agents to ensure compliance of employment policies, and the provision of in-house training and external seminars to shore based staff to keep them updated with industry and regulatory developments. • An annual staff performance appraisal system is used to identify strengths and correct weaknesses in staff, and an incentive scheme is in place to encourage and retain employees.

2. Insufficient Insurance

The inherent risks incident to the operation of vessels include collision, sinking, piracy, other marine disasters, environmental pollution, cargo and property damage and loss and business interruption.	**How do we manage our risk?** To minimise the likely financial consequences, the Group uses a range of insurance products, including hull and machinery, war risk, P&I cover, freight demurrage and defense cover, bunker insurance, charterers liability, purchaser interest, charterers advance profit cover, ship owner liability, cargo liability cover and property risk cover. We insure to the highest standards in the industry. Insurances are only arranged with reputable underwriters. We use a group of 13 well-known international underwriters at competitive premiums. The insured value of our fleet is not less than the vessels' market values. At the end of 2008, the aggregate value of hull and machinery insurance for our owned (US$1,140.7 million) and newbuilding (US$594.1 million) vessels combined with the value of hulls insured under purchasers interest insurance for our chartered vessels (US$284.8 million), amounted to US$2.0 billion. Furthermore, the value of maximum loss of future earnings under purchasers interest insurance for our chartered vessels amounted to US$6.6 million. Environmental cover is insured under P&I policies and oil pollution has coverage of up to US$1.0 billion per vessel per incident. Regular reviews of the insured values are carried out to ensure insurance coverage is adequate.

3. Critical Software or System Failure

Certain software and systems are critical to the smooth operations of the Group's business. They include the database systems which records all of the Group's business activities, the electronic communication system and the financial accounting system. Their failure could have a severe negative impact on the business and earnings.

How do we manage our risk?

The maintenance and protection of software and systems, and the development and implementation policies, are carried out by the Group's IT department. They are responsible for the development of the Group's IT infrastructure in accordance with the Group's requirements and in particular the development and maintenance of anti-virus and firewall systems to protect our computer systems, servers, laptops and other fixed or portable computer devices from viruses or similar hazards.

The Group manages this risk by:

- Having an IT Steering Committee that regularly reviews and evaluates any system incidents reported.
- Developing and maintaining certain preventive or contingency measures to minimise the risk of system failures or to deal with the system breakdowns according to the Group's IT policies.
- Providing external technical training to our IT staff.

ENVIRONMENT

Environmental issues remain a priority for Pacific Basin as much in these difficult economic times as in more buoyant shipping markets. The majority of our environmental efforts to date have been to reduce our sulphur emissions and our carbon footprint, in the process also improving our bottom line.

Our average handysize ship is younger and more fuel efficient and produces less emissions per tonne-mile than the average vessel in this sector. Even so, we continue to make technical improvements to reduce our ships' consumption of fuel so as to further reduce our impact on the environment. For example, we are more than halfway through the process of installing propeller boss cap fins on our owned fleet and are offering to pay for the installation of propeller boss cap fins on our long term chartered ships. This technology has been proven (through its use on our fleet) to generate improved hydrodynamics and therefore greater fuel efficiency and reduced emissions.

We track our ships' environmental performance by monitoring all discharges and emissions, including of Carbon Dioxide (CO_2), Sulphur Oxides (SOx) and Nitrogen Oxides (NOx), and operational and household wastes. We continually assess operational practices to minimise such output, and are encouraged by our unaudited 2008 results which show:

- a 4.3% reduction in CO_2 emissions per tonne-mile from 9.48 grams per tonne-mile in 2007 to 9.07 grams per tonne-mile in 2008, mainly as a result of a voluntary speed reduction programme implemented in the latter half of the year;
- a 3.5% reduction in total SOx emissions from 9,425 tonnes to 9,090 tonnes, as a result of a voluntary Port Distillate Initiative (detailed below) – this despite an overall increase in the average sulphur content of fuels supplied to our vessels from 2.54% to 2.61%; and

- a 19% reduction in total NOx emissions from 13,700 tonnes to 11,050 tonnes, as a result of our voluntary speed reduction programme, the progressive introduction of newer ships into our owned fleet, and a consequent reduction in the overall amount of fuels consumed.

We continue to collect as much data as possible so as to support our efforts to achieve emissions improvements in the future.

Over a four month period, eleven of our ships participated in a trial port distillate initiative in which distillates were used instead of heavy fuel oil when navigating in ports or through waterways close to built-up areas, reducing our sulphur oxide emissions near population centres. Our unaudited findings indicate a reduction in Sulphur Oxide emissions of 87% in the areas mentioned. We are encouraged by these results and are optimistic about the long term positive effects on the environment of the IMO legislation that will see a progressive phase out of intermediate fuel oils for marine use by 2020.

We are modifying the oily water separators on our ships to minimise risk of inadvertent pollution, and have almost completed our roll-out of garbage compactors to help facilitate the storage of waste. This enables us to implement voluntarily a much stricter waste disposal policy than is required under relevant maritime legislation.

We are continually assessing the practicality and merits of other technologies and practices that could further reduce our fleet's emissions. Some are less capital intensive such as cylinder lubrication optimisation and the use of fuel additives. Others, such as the use of tow-kite systems that harness wind power to reduce a vessel's dependence on fossil fuels for propulsion, need further development and testing before we can consider them seriously for our ships.

In our offices, we attempt to embrace the same spirit of environmental consciousness as we do on the water. For example, we have replaced our office lights with energy savings types and we recycle a wide range of materials. While these initiatives have a relatively small impact on the environment compared with what we can do onboard our vessels, we believe that "every bit helps", and that it is important to make both large and small environmental efforts wherever possible.

We actively take advantage of government legislation to promote more environmentally conscious shipping. In 2008, seven of our vessels called at the Port of Long Beach, where they achieved 100% compliance with their "Green Flag Incentive Programme", a clean air initiative that offers financial incentives to shipping companies who voluntary reduce vessel speed and thus reduce air pollution. This also translated to a 15% reduction in dockage fees. We expect to see many more such schemes in future. We will also be following closely the United Nations Climate Change Conference in Copenhagen in December 2009 at which it is widely anticipated that new global shipping legislation will be introduced. Pacific Basin is committed to a leadership role in compliance with regulations, either existing, or under consideration, exceeding legislative requirements where practically possible.

RoRo Operations

RoRo services can provide significant environmental and social benefits by transporting freight by sea rather than by road. These benefits include reduced road congestion, accidents, injuries, traffic noise and particulate emissions through a reduction in highway traffic. Depending on the route serviced and capacity utilisation levels, RoRo services can also generate significant savings in CO_2 emissions compared to road haulage. Pacific Basin's new RoRos have market leading fuel economics and, as such, can be particularly effective in delivering these benefits to the wider community.

Europe is currently the largest market for RoRo services. The EU recognises their environmental advantages and is encouraging the transfer of freight from road to the sea through its "Motorways of the Sea" and "Marco Polo" programmes which seek to promote the development of new RoRo services and related infrastructure. As owners rather than operators, we would not benefit directly from the EU subsidies available under these programmes. However, our RoRo fleet is well placed to make a significant contribution to these initiatives by providing operators seeking to initiate new European services with efficient ships which maximise the economic viability of new routes whilst minimising their environmental impact.

Green Dragon Gas

Shipping companies are not yet required by law to offset their emissions but, in an effort to find projects which enable shipowners to present themselves as "carbon neutral", in 2008 we invested in and started working with Green Dragon Gas Limited ("GDG"), a major coal bed methane company in China listed on London's AIM market. Due to the ongoing financial crisis, GDG's share price has declined sharply, leading to a recorded non-cash mark-to-market net loss of US$23.1 million on our shareholding for the year ended 31 December 2008. However, since our investment, GDG has announced an independently evaluated 13% increase in the volume and a 58% increase in the value of its gas reserves. We continue to believe in both the prospects for GDG and its partnership with Pacific Basin. As at 31 December 2008, our investment in GDG had a fair value of US$36.8 million.

CORPORATE SOCIAL RESPONSIBILITY

Pacific Basin recognises the importance of its health and safety, social and environmental responsibilities. We are committed to fostering long term relationships with our shareholders, employees, customers, business partners and other stakeholders, and we aim to always apply high standards of management, customer service and corporate governance.

Health and Safety

Operational safety is of the utmost importance to Pacific Basin. We are committed to the safe and environmentally conscious operation of ships through a proactive management system, both ashore and at sea by conforming to the mandatory International Safety Management (ISM) Code and the voluntary ISO 9001, ISO 14001 and OHSAS 18001 standards.

The Pacific Basin Management System (PBMS) aims to achieve:

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

The Group is certified by Lloyds Register Quality Assurance (LRQA) to the voluntary Environmental and Occupational Health & Safety Management Systems conforming to ISO 14001:2004 and OHSAS 18001:2007 standards, demonstrating its commitment to environmental protection and occupational health and safety. Our technical operations are also certified to the Quality Management System conforming to the ISO 9001:2000 standard.

Standards and Training

To operate successfully, the Group aims to provide all employees with a safe, healthy and fulfilling work environment. Ongoing training programmes held ashore and on board aim to ensure that the skills of its personnel ashore and at sea are continuously maintained and improved.

We employ Fleet Training Superintendents, well versed with our management system, to sail on our vessels for specific and on-the-job training in safety and key operational areas. This assists our crews in maintaining a high standard of ship operation. We also conduct half yearly training seminars, where our senior officers interact with our managers on topical issues and trends in the company and industry. Participants include speakers from the insurance sector, port state control officers, and manufacturers of machinery and equipment, giving our senior officers an external perspective on these issues.

Shore based staff attend frequent in-house training sessions and external seminars to keep themselves abreast of industry developments and new regulatory requirements. Staff members are also encouraged to undertake higher education courses, for which the company will provide financial assistance where appropriate.

We are committed to providing services of the highest standards to our customers and business partners worldwide. This is achieved by conducting our business in accordance with industry best practices and meeting or exceeding statutory requirements and compliance with maritime laws and treaties as applied by the International Maritime Organisation, relevant Flag State administrations, classification societies and other recognised maritime industry organisations.

We maintain a global network of regional offices to ensure that we offer our customers direct and local access to our chartering and operations teams.

We pride ourselves on providing high quality vessels, manned by competent crew. The average age of our core bulk carrier fleet is 6.7 years, one of the youngest in this sector. The training of our crews focuses on quality and retention of the best.

The Community

The Group acknowledges its position as a responsible member of the community both in Hong Kong and in the cities and ports where Pacific Basin carries out its worldwide trades.

We are a member of the Shipping Consultative Committee of the Hong Kong Flag State, BIMCO, Intercargo and the Hong Kong Shipowners Association, and have affiliations with maritime organisations including the Baltic Exchange. We also maintain a close relationship with other shipping companies, particularly in regard to environmental and staffing issues.

As one of the largest foreign employers of Chinese crew, we continue to be a major supporter of the Chinese seafaring community and the training of Chinese officers and ratings. We have extended employment opportunities to the Philippines and Eastern Europe, and aim to develop a responsible operation in those countries. Our strong presence in these three major crew resource pools enables us to man our fleet with experienced crew despite the present shortage of maritime personnel.

Through the Sailors Society, we are a proud sponsor of a bus in Manila that is used to transport returning seafarers-free of charge-from the Manila airport to various local transportation hubs within Manila, irrespective of which company those seafarers work for.

We make contributions to charity and community programmes, recognising the need to be supportive of maritime industry projects and other causes as a measure of giving back to the Hong Kong and world communities. In 2008, we supported a number of charities including The Community Chest of Hong Kong, The World Wide Fund for Nature (Hong Kong), The Hong Kong Cancer Fund, The Hong Kong Red Cross (with a particular contribution to Sichuan earthquake relief), The China Red Cross, Medecins Sans Frontiers, Oxfam, The Cairn Trust, The Society for the Promotion of Hospice Care, Concern Worldwide, The Mission to Seafarers, The Hong Kong Maritime Museum Trust and The British and International Sailors Society.

Staff events are often combined with community efforts

CORPORATE GOVERNANCE

Pacific Basin is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and its stakeholders, and consistent with the Code on Corporate Governance Practices (the "Code") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The Group has considered the Code and has put in place corporate governance practices to meet all of the code provisions.

Throughout the year the Group has complied with all code provisions of the Code, as contained in Appendix 14 of the Listing Rules. The Group continues to adopt the recommended best practices under the Code; however there are areas where full implementation is not considered appropriate, including the following:

(i) The Group provides a quarterly trading update to enable its shareholders to assess the performance, financial position and prospects of the Group. This is instead of announcing and publishing its quarterly results, as the Group believes this gives its shareholders the key quarterly information to assess the development of the Group's business;

(ii) The Board comprises ten Directors, three of them are independent non-executive Directors, which is less than the recommended one-third number due to the re-designation of Mr. David M. Turnbull from the position of independent non-executive Director to executive Director on 1 July 2008. The number is in line with the Listing Rules for a minimum of three independent non-executive Directors; and

(iii) The Group seeks continuous improvement in the effectiveness of its internal control procedures. Responsibility lies with the Risk Management Committee ("RMC"), led by the Deputy Chief Executive Officer, which includes the Group Risk Manager. The RMC's activities are reviewed at least twice a year by the Audit Committee. The Audit Committee is satisfied that the internal audit of the controls environment is adequately covered by the system of internal reviews, where the Group Risk Manager or appropriate staff from the accounts department carry out formal internal control reviews in sections other than their own. There remains continuous assessment of the need for any changes in the internal audit function as the Group develops.

The Board of Directors

The Board's primary responsibilities are to formulate Pacific Basin's long term corporate strategies, to oversee the management of the Group, to evaluate the performance of the Group and to assess the achievement of targets periodically set by the Board. The Board is directly accountable to the shareholders and is responsible for preparing the financial statements.

The Board is also required to approve (i) acquisitions or disposals that require shareholder notification or approval under the Listing Rules; (ii) developments in the strategic direction of the Group; and (iii) matters involving a conflict of interest for a substantial shareholder or Director.

The Board comprises ten Directors whose biographical details are set out in the "Directors, Senior Management and Key Staff" section of this Annual Report. Five of the Directors are executive, two are non-executive and three are independent non-executive. The five non-executive Directors bring a broad range of financial, regulatory and commercial experience and skills to the Board, which contribute to the effective strategic management of the Group. The executive Directors are not permitted to engage in any other business which is in competition with that of the Group, and are required to devote all of their active or contracted business time to the business and affairs of the Group.

In accordance with the Company's Bye-laws, at each annual general meeting one-third of the Directors (rounded up if their number is not a multiple of three) shall retire from office by rotation.

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

The posts of Chairman and Chief Executive Officer are held by Mr. David M. Turnbull and Mr. Richard M. Hext respectively and their roles and responsibilities are separate and are set out in writing.

The Chairman is responsible for formulating and setting Group strategies and policies in conjunction with the Board and for ensuring that he and his delegates shall, in the capacity of Chairman, comply with the responsibilities under the Code. The Chief Executive Officer and the Deputy Chief Executive Officer are charged with running the Group and are responsible for ensuring that appropriate information is circulated regularly so that Board members can actively contribute to the Group's development. The Chief Executive Officer and the Deputy Chief Executive Officer are also responsible for managing Group strategic initiatives and major business activities such as mergers/acquisitions and the sale and purchase of vessels.

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

The Board met on eleven occasions during 2008. The attendance of individual Directors at the Board meetings and two Board Committees (the Audit and the Remuneration Committees) is set out in the table below.

	Meetings Attended/Held		
	Board	Audit Committee	Remuneration Committee
Executive Directors			
David M. Turnbull (an independent non-executive Director prior to 1 July 2008)	11/11	2/2	1/1
Richard M. Hext	10/11		
Klaus Nyborg	10/11		
Wang Chunlin	11/11		
Jan Rindbo	11/11		
Christopher R. Buttery (resigned on 30 June 2008)	4/6		
Non-executive Directors			
Dr. Lee Kwok Yin, Simon	8/11		1/1
Daniel R. Bradshaw	9/11	4/4	1/1
Independent non-executive Directors			
Robert C. Nicholson	9/11	4/4	1/1
Patrick B. Paul	8/11	4/4	1/1
Alasdair G. Morrison	10/11	2/4	1/1

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

The Board has established Audit, Remuneration and Nomination Committees in accordance with the Code and all or a majority of the members of the Committees are independent non-executive Directors. The Board has also established an Executive Committee to streamline the decision making process of the Company in certain circumstances. Decisions made by the Board and the Board Committees are based on detailed analysis prepared by management. The terms of reference of these Board Committees are posted on the Company's website at www.pacificbasin.com.

Board

Executive Committee
- David M. Turnbull
- Richard M. Hext (Chairman)
- Klaus Nyborg
- Wang Chunlin
- Jan Rindbo

Audit Committee
- Patrick B. Paul (Chairman)
- Robert C. Nicholson
- Daniel R. Bradshaw
- Alasdair G. Morrison

Remuneration Committee
- Robert C. Nicholson (Chairman)
- Patrick B. Paul
- Dr. Lee Kwok Yin, Simon
- Daniel R. Bradshaw
- Alasdair G. Morrison

Nomination Committee
- Robert C. Nicholson (Chairman)
- Patrick B. Paul
- Dr. Lee Kwok Yin, Simon
- Daniel R. Bradshaw
- Alasdair G. Morrison

The Audit Committee

The Audit Committee consists of all three independent non-executive Directors, namely Mr. Patrick B. Paul (Committee Chairman), Mr. Robert C. Nicholson and Mr. Alasdair G. Morrison, and one non-executive Director, Mr. Daniel R. Bradshaw. Mr. David M. Turnbull's membership of the Audit Committee ceased on 1 July 2008 when he became an executive Director of the Company.

The main responsibilities of the Audit Committee are to review the financial statements and the auditors' reports and monitor the integrity of the financial statements. The Audit Committee is also charged with reviewing the effectiveness of the financial reporting system and internal control procedures. Other responsibilities include the policy for the engagement of auditors, approval of the auditors' remuneration, discussion of audit procedures and any other matters arising from the above.

The Audit Committee held four meetings during the year. The work of the Audit Committee in 2008 included reviews of:

- the 2007 annual report and annual results announcement with a recommendation to the Board for approval;
- the external auditors' audit committee report in respect of the 2007 audit and 2008 interim audit;
- the 2008 interim report and interim results announcement;
- the independence of all independent non-executive Directors;
- connected party transactions;
- the progress and results of management's self assessment of risks and internal controls;
- the external auditors' internal control memorandum and the follow up actions by the management;
- the external auditors' 2008 audit strategy memorandum and approval of the 2008 audit plan; and
- accounting treatment of specific transactions.

During the reporting year, the Audit Committee met with the external auditors once without the presence of any executive Directors.

The Remuneration Committee

The Remuneration Committee consists of all two non-executive Directors, namely Dr. Lee Kwok Yin, Simon and Mr. Daniel R. Bradshaw, and all three independent non-executive Directors, namely Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul and Mr. Alasdair G. Morrison. Mr. David M. Turnbull's membership of the Remuneration Committee ceased on 1 July 2008 when he became an executive Director of the Company.

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

The Remuneration Committee held one meeting during the year. The work of the Remuneration Committee in 2008 included the following matters:

- approval of 2007 year end bonuses and 2008 salary increases for executive Directors and senior management;
- grant of restricted shares under the Long Term Incentive Scheme to executive Directors and staff members;
- approval of salary increment for two executive Directors and one senior management and terminate their company's car lease scheme with effect from 1 January 2009;
- approval of various principles of severance as a result of the retrenchment of staff in December 2008; and
- approval of 2009 salary reductions in respect of the executive Directors and certain senior staff members.

The Nomination Committee

The Nomination Committee consists of all two non-executive Directors, namely Dr. Lee Kwok Yin, Simon and Mr. Daniel R. Bradshaw, and all three independent non-executive Directors, namely Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul and Mr. Alasdair G. Morrison. Mr. David M. Turnbull's membership of the Nomination Committee ceased on 1 July 2008 when he became an executive Director of the Company on 1 July 2008.

The Nomination Committee meets as and when required to oversee the nomination of Directors to the Board ensuring that all such nominations are fair and transparent and that the Board benefits from the right balance of skills, experience and knowledge to govern effectively. The Nomination Committee also reviews the structure, size and composition of the Board, paying regard to the Stock Exchange board composition rules. No meeting was held by the Nomination Committee during the year.

The Executive Committee

The Executive Committee consists of all five executive Directors: Chairman Mr. David M. Turnbull (who has become an executive Director and a member of the Executive Committee since 1 July 2008), Chief Executive Officer Mr. Richard M. Hext (Committee Chairman), Deputy Chief Executive Officer Mr. Klaus Nyborg, executive Directors Mr. Wang Chunlin and Mr. Jan Rindbo (who has become a member of the Executive Committee since 23 January 2008).

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

Internal Controls

Framework

The Board has overall responsibility for the Group's system of internal control and the assessment and management of risks. The Group's Risk Management Committee ("RMC") which is headed by the Company's Deputy Chief Executive Officer, actively identifies and reviews significant risks of the Group. Its objective is to strengthen the Group's risk management culture and to minimise the sensitivity of the Company's earnings to the risks we face.

The system of internal controls is designed to provide reasonable, but not absolute, assurance against human error, material misstatement, losses, damages or fraud. Please also refer to the Risk Management section of this Annual Report.

The Group has in place a framework that is consistent with the COSO (the Committee of Sponsoring Organisations of the Treadway Commission) framework which has the following five components:

Adapted from Internal Control-Integrated Framework, COSO

Control Environment
Defined organisational structures are established. Authority to operate various business functions is delegated to respective management within limits set by head office management or the executive Directors. The Board meets on a regular basis to discuss and agree business strategies, plans and budgets prepared by individual business units. The performance of the Group is reported to the Board on a monthly basis.
Risk Assessment
The Group identifies, assesses and ranks the risks that are most relevant to the Group's success according to their likelihood, financial consequence and reputational impact on the Group.
Control Activities
Policies and procedures are set for each business function which includes approvals, authorisation, verification, recommendations, performance reviews, asset security and segregation of duties.
Information and Communication
The Group documents operational procedures of all business units. The risks identified and their respective control procedures are documented in risk registers by the RMC and reviewed by the Audit Committee at least annually.
Monitoring
The Group adopts a control and risk self-assessment methodology, continuously assessing and managing its business risks by way of internal audits, and communication of key control procedures to employees. The RMC is tasked with the responsibility to assess the performance and effectiveness of the controls on a systematic basis. Findings of the assessments are submitted to the Audit Committee.

Annual Assessment

Activities, procedures, existing controls and new controls to be implemented are documented in the risk registers. The existence and effectiveness of the existing control procedures are tested with a frequency being determined by reference to the ranking of each individual risk area. All control procedures of significant risks are tested annually and others are reviewed annually.

The criteria for assessing the effectiveness of internal controls are based on an assessment of whether the documented control processes have operated throughout the period being reviewed, and to identify whether there are any control weaknesses. The Risk Manager, on behalf of the RMC, co-ordinated the annual testing of control procedures in respect of all significant Group risks with findings reported to the RMC and the Audit Committee. This work was carried out by the Risk Manager or appropriate staff from the accounts department who test the controls of sections other than their own.

Effectiveness of Internal Control System

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The Group's system of internal controls is designed for the identification and management of risks that are significant to the fulfillment of its business objectives. The Audit Committee reviews the findings and opinion of the RMC on the effectiveness of the Group's system of internal control and reports to the Board annually.

In respect of the year ended 31 December 2008, the Board has reviewed the internal control systems of the Group and no significant areas of concern were identified.

Controls on Price-sensitive Information

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

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

Directors' Securities Transactions

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers, as set out in Appendix 10 of the Listing Rules, as amended and adopted with effect from 1 January 2009 (the "Model Code").

The Board confirms that, having made specific enquiry, the Directors have complied in full with the required standard set out in the Model Code and its code of conduct, except that a Director traded in the Company's securities following the receipt of oral confirmation that no trading restrictions were in place, but before written approval from the Company.
The Board has formally reminded all Directors that the Model Code stipulates written approval must be received before such transactions can proceed.

Senior Management and Staff Securities Transactions

The Company has adopted rules for senior managers and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Group based on the Model Code for Securities Transactions by Directors, as amended and adopted with effect from 1 January 2009 (the "Dealing Rules"). These senior managers and staff have been individually notified and provided with a copy of the Dealing Rules.

Directors and Senior Management - Remuneration and Share Ownership

Details of the remuneration and share ownership of the Directors and senior management are contained in the Remuneration Report and Report of the Directors of this Annual Report.

Auditors' Remuneration

Remuneration paid to the Group's external auditors for services provided for the year ended 31 December 2008 is as follows:

	US$'000
Audit	1,155
Non-audit	179
Total	1,334

DIRECTORS, SENIOR MANAGEMENT AND KEY STAFF

EXECUTIVE DIRECTORS

David M. Turnbull

age 54

Chairman

David Turnbull graduated from Cambridge University with an honours degree in Economics. He joined the Swire Group upon graduation and held a variety of senior management positions during his 30 years with the group. Mr. Turnbull has held the following positions in Hong Kong publicly listed companies: Chairman of Swire Pacific Ltd. and Cathay Pacific Airways Ltd. from January 2005 until January 2006, Hong Kong Aircraft Engineering Company Ltd. from March 1995 until August 2006, a non-executive Director of the Hongkong and Shanghai Banking Corporation from January 2005 until December 2005, and a non-executive Director of Hysan Development Co. Ltd. and Air China Ltd. from May 2005 until December 2005. In July 2006 he was appointed as an independent non-executive Director of Green Dragon Gas Limited, a company listed on the AIM market of the London Stock Exchange. He was a Director of Allco Finance Group Limited, which is listed on the Australian Stock Exchange, from March 2006 until March 2008. In November 2008, he was appointed Chairman of Seabury Aviation and Aerospace Asia (Hong Kong) Ltd, a subsidiary of Seabury Group LLC. Mr. Turnbull joined Pacific Basin's Board on 17 May 2006 when he was appointed as an independent non-executive Director of the Company for a term of three years. He assumed the position of Chairman of the Company on 1 January 2008 and was further appointed as an executive Director on 1 July 2008.

Richard M. Hext

age 51

Chief Executive Officer

Richard Hext has lived in Asia for 32 years and has been in shipping for over 30 years. He graduated from Worcester College, Oxford University in 1978 with a Bachelor of Arts (subsequently Master of Arts) degree in Modern History and Economics. He has since attended executive programmes at INSEAD, Oxford University and Stanford University. He served with John Swire & Sons Limited from 1978 to 2000 during which time he held senior management positions with a number of Swire subsidiaries and joint ventures including P&O Swire Containers in Australia, Steamships Trading in Papua New Guinea, Swire Pacific Offshore in the United Arab Emirates and in Qatar and The China Navigation Company Limited in Hong Kong where he was Managing Director from 1996. From early 2000 he was a Director of John Swire & Sons (HK) Limited which controls a number of Hong Kong companies including Hong Kong-listed Swire Pacific Limited. He also served on the boards of Modern Terminals Limited, Hong Kong Salvage and Towage and Hong Kong United Dockyards. From late 2000 to early 2003, he was Chief Executive Officer of LevelSeas Limited. From 2003 until early 2005 he served as Chief Executive Officer of the Marine Services Division of V Ships. Mr. Hext joined Pacific Basin in April 2005. He was appointed as Chief Executive Officer in April 2006.

Klaus Nyborg

age 45

Deputy Chief Executive Officer

Klaus Nyborg has a Diploma (Econ), and Bachelor of Arts and MSc degree in Business and Business Law – all from Copenhagen Business School and has since attended executive programmes at London Business School and IMD. He started his career in shipping in 1990 with A.P. Moller-Maersk where he served as General Manager, Corporate Secretariat. He was General Manager & Regional CFO of Maersk Sealand for the Europe/Africa region in 1997/98, then Vice President/Regional CFO and Head of Corporate Affairs for Asia, Oceania and the Middle East from 1998 to 2001. He was CFO and Director of Maersk Logistics International until 2002 when he joined TORM (a Copenhagen and NASDAQ-listed product tanker and dry bulk shipping group) where he was the CFO and an executive Director until June 2006. Mr. Nyborg joined Pacific Basin as an executive Director and Deputy Chief Executive Officer in September 2006.

Wang Chunlin

age 45

Executive Director,
Group Business Development

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

Jan Rindbo
age 34
Managing Director, IHC & IHX

Jan Rindbo, graduated from Naestved Business College in Denmark in 1993. In 1994 following his military service, he joined TORM, a major Danish ship owning and operating group listed in Copenhagen and on NASDAQ in New York, where he specialised in handysize chartering activities and pool operations. He was promoted to the position of Chartering Manager with TORM Asia, Hong Kong in 1996. From 1998 to 1999, he served with TORM in Denmark and was then promoted as Vice President with TORM Bulk USA in Portland Oregon in 1999. He returned to Hong Kong to manage the activities of the Pacific Basin–IHC Pool established by the Group in 2001 and previously known as the International Handybulk Carriers Pool. He was initially seconded by TORM to the Company and became fully employed by the Group in 2004. He is currently responsible for the chartering and commercial operations of the handysize and handymax vessels. He attended the International Executive Development programme at INSEAD in 2007. Mr. Rindbo's term as an executive Director commenced in April 2007.

NON-EXECUTIVE DIRECTORS

Daniel R. Bradshaw
age 62

Daniel Bradshaw graduated from Victoria University of Wellington (New Zealand) with a Bachelor of Laws (1969) and a Master of Laws (1971) and has been admitted as a solicitor in New Zealand, England and Hong Kong. Since 1978 he has worked at Johnson, Stokes and Master (now Mayer Brown JSM), from 1983 to 2003 as a partner and from 1996 to 2003 as head of the firm's shipping practice and since 2003 as a consultant. He was Vice Chairman of the Hong Kong Shipowners' Association from 1993 to 2001 and he was a member of the Hong Kong Port and Maritime Board until 2003 and the Hong Kong Maritime Industries Council until 2008. He is currently on the board of Euronav, a Euronext listed tanker company. Mr. Bradshaw joined the Board of Pacific Basin as a non-executive Director and Deputy Chairman in April 2006. He stood down from the position of Deputy Chairman on 1 January 2008 and continued his position as a non-executive Director of the Company.

Dr. Lee Kwok Yin, Simon
age 81
M.B.E., J.P.

Dr. Lee is Chairman of the Sun Hing Group of Companies (SH Group), which was established in 1945 and is involved in shipping, insurance, warehousing, transportation and real estate investments in Hong Kong and Canada. He has served extensively on marine-related government committees, including a term as Chairman of the Shipping Committee of the Hong Kong General Chamber of Commerce. He has been a Director of Pacific Basin since 1998 and a Director of Wing Hang Bank since 1991. Dr. Lee was awarded a Honorary Doctorate Degree in Social Sciences by the University of Hong Kong in March 2006.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Robert C. Nicholson
age 53

Robert Nicholson, a graduate of the University of Kent, qualified as a solicitor in England and Wales in 1980 and in Hong Kong in 1982. He was a senior partner of Richards Butler from 1985 to 2001 where he established the corporate and commercial department. He has had wide experience in corporate finance and cross-border transactions, including mergers and acquisitions, regional telecommunications, debt and equity capital markets, corporate reorganisations and the privatisation of state-owned enterprises in the People's Republic of China. He was a senior advisor to the board of directors of PCCW Limited between August 2001 and September 2003. He is an independent non-executive Director of QPL International Holdings Limited. In November 2005, he became a non-executive Director of India Capital Growth Fund Limited, which is listed on the AIM market of the London Stock Exchange. He serves as a Commissioner of PT Indofood Sukses Makmur Tbk and is a Director of Philex Mining Corporation and Level Up! International Holdings Pte Ltd. He joined the Board of First Pacific Company Limited in June 2003 and was named an executive Director in November 2003. Mr. Nicholson joined the Board of Pacific Basin in March 2004.

Patrick B. Paul
age 61

Patrick Paul graduated from St. John's College, Oxford University in 1969 and is a qualified accountant. In a 33 year career with PricewaterhouseCoopers (PwC), he held a number of senior management positions in Hong Kong, including Chairman and Senior Partner of the firm for seven years. Since retiring from PwC in 2002, he has taken up a number of independent non-executive directorships, including currently Johnson Electric Holdings Limited and The Hongkong and Shanghai Hotels, Limited, and Kingsway International Holdings Limited until April 2008. Mr. Paul joined the Board of Pacific Basin in March 2004.

Alasdair G. Morrison
age 60

Alasdair Morrison obtained a Bachelor of Arts (subsequently Master of Arts) from Cambridge University in 1971. He also attended the Program for Management Development at Harvard Business School in 1983. Mr. Morrison was a Managing Director of Morgan Stanley Dean Witter Asia Limited and a member of the investment bank's global management committee. From 2000 to 2007, he was Chairman of Morgan Stanley Asia, based in Hong Kong. From 2002 to February 2006, he was concurrently Chairman and Chief Executive Officer of Morgan Stanley Asia. Prior to joining Morgan Stanley, Mr. Morrison worked for the Jardine Matheson Group from 1971 to 2000. From 1994 to 2000, he was Group Managing Director for the Jardine Matheson Group. He is currently the non-executive Chairman of Kang & Company, a private equity firm founded in late 2007, a non-executive director of Grosvenor Group Limited in the UK and a member of the Bloomberg Asia Pacific Advisory Board. Mr. Morrison joined the Board of Pacific Basin on 1 January 2008.

SENIOR MANAGEMENT

Andrew Broomhead graduated from Emmanuel College, Cambridge University in 1982 with a Bachelor of Arts (subsequently Master of Arts) degree in Natural Sciences. He is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales. His experience covers company and project financing with emphasis on the infrastructure sector through his work with Deloitte, Haskins & Sells, Samuel Montagu & Co., International Finance Corporation, Bakrie Investindo and Sanwa International Finance. He has been based in the UK, North America, Singapore, Indonesia and Hong Kong, and has worked in Asia for over 15 years. Mr. Broomhead joined Pacific Basin in April 2003 as the Group's Chief Financial Officer and Company Secretary.

Charles Maltby graduated from the University of Plymouth, UK in 1992 with a BSc in Maritime Business (International Shipping & Maritime Law). He also attended the Advanced Management Programme at INSEAD in 2008. He began his shipping career with Mobil Shipping in London in 1992 before joining the chartering team of BHP Transport in 1996. Following three years in Australia as Senior Chartering Officer responsible for handysize and handymax chartering, he returned to London in 2000 to take up a senior capesize and panamax chartering position and, in 2001, moved to the Hague to establish the handysize/handymax chartering and trading desk for BHP Billiton. Mr. Maltby joined Pacific Basin in London in November 2005 to expand the handymax activities of the Group. He is a member of the Institute of Chartered Shipbrokers.

Ian Dalgleish graduated from the Australian Maritime College in 1983. He was a master mariner and sailed with BHP on a variety of dry cargo vessels before joining BHP's chartering team in 1993. He moved to Chile as Shipping Manager for Minera Escondida in 1996 and then to Venezuela as Shipping Manager for Orinoco Iron in 2000 before returning to Australia to manage the Handy Pacific desk for BHP Billiton. Mr. Dalgleish joined Pacific Basin in February 2004 to establish the Group's IHC office in Melbourne. In August 2007, Mr. Dalgleish relocated to Hong Kong and was appointed Chief Operating Officer, IHC & IHX and subsequently Managing Director, PB Towage. He is now responsible for the operation, management and development of Pacific Basin's towage business.

Nicholas Josephy started his career in 1976 with P&O and worked in their bulk carrier division as Trade Director between 1987 and 1990, eventually rising to the position of Managing Director of P&O Tankships Limited in 1991 whilst remaining on the board of P&O Bulk Shipping Limited. He left P&O in 1997 and became an independent shipping consultant in 1999 after spending two years at Railtrack PLC where he worked as the Head of Passenger Business, Director Telecommunications and Zone Director from 1997 to 1999. In May 2004, he joined Epic Shipping Limited where he was responsible for business development and the management of two 2000 lane metre Ropax vessels and the management of their Ropax and RoRo newbuilding programme. He joined Pacific Basin in April 2008.

Andrew T. Broomhead
age 47
Chief Financial Officer and Company Secretary

Charles Maltby
age 37
Managing Director, UK; Director, IHX

Ian Dalgleish
age 48
Managing Director, PB Towage

Nicholas Josephy
age 56
Director, PB RoRo

Ben Lee
age 54
President, Pacific Basin Shipping Consulting (Shanghai) Limited

Ben Lee graduated from the University of International Economics & Trade, Beijing in 1978 and has since attained an EMBA from the China-Europe International Business School. For over 25 years, he worked for a major Chinese state owned international trading company engaged in the import and export of machinery and equipment used for shipbuilding, shipping and offshore oil installations. He was appointed Chairman and President of that company in 2000. Mr. Lee joined Pacific Basin in September 2004 as President of Pacific Basin Shipping Consulting (Shanghai) Ltd. where he has administrative responsibility for the Group's China-based activities and is engaged in China-related business development.

Morten H. Ingebrigtsen
age 47
Director, Assets Management

Morten Ingebrigtsen graduated from the Norwegian School of Management in 1986 with a Masters degree in General Business. He started his career with major Norwegian shipping group Wilh. Wilhelmsen where he gained experience in the sale and purchase of ships, new project analysis (for bulk carrier and tanker projects) and investor liaison. Mr. Ingebrigtsen joined Pacific Basin in Hong Kong in January 1989 and re-joined the current Pacific Basin in 1999 and is in charge of the Group's vessel assets management and newbuilding activities.

KEY STAFF

Danish Sultan
age 48
Managing Director, PacMarine Services

Danish Sultan started his career at sea rising to the rank of Master before joining PacMarine Services in March 1996. He led the vetting inspection teams in both Singapore and Hong Kong before being promoted to General Manager of PacMarine Singapore in 2001. Mr. Sultan was promoted to Managing Director of the PacMarine Services Group in 2004. He is a member of the Nautical Institute and the Chartered Institute of Logistics and Transport.

Chanakya Kocherla
age 51
Managing Director, PB Maritime Services

Chanakya Kocherla graduated from the Directorate of Marine Engineering Training, India in 1978 with a first class degree in Marine Engineering. After four years at sea, he joined the IndoChina Steam Navigation Company ("IndoChina") (part of the Jardine Group) in Hong Kong where he served for 18 years until IndoChina was acquired by Pacific Basin in December 2001. During this time, he built up technical management experience in a variety of ship types including log/bulk carriers, multipurpose and container ships as well as oil and chemical tankers. He is a member of the Hong Kong technical committee for Class NK.

REMUNERATION REPORT

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

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

1. Executive Directors and Senior Management – Components of Remuneration

The key components of remuneration for executive Directors and senior management comprise fixed and variable elements and include base salary, annual discretionary cash bonus and long term equity incentives. The Board, through the Remuneration Committee, seeks to provide remuneration packages that are competitive, accord with market practice and allow the Group to attract and retain executives and senior management with the skills, experience and qualifications needed to manage and grow the business successfully.

Base salary takes into consideration prevailing market conditions and local market practice as well as the individual's role, duties, experience and responsibilities.

Bonuses are determined based on the overall performance of the individual and the Group as assessed by the Remuneration Committee.

Equity awards are provided through the Company's Long Term Incentive Scheme which is designed to provide executive Directors, senior management, key staff and other employees with long term incentives that are aligned to and consistent with increasing shareholder value. Equity awards typically vest annually over a three to five year period, with a further annual award of equity to maintain the incentive period.

2. Executive Directors' Remuneration

The remuneration payable to the executive Directors and charged in the financial statements for the year ended 31 December 2008 for the periods that the Directors held office is shown below:

	Salaries US$'000	Bonus US$'000	Employer's contribution to pension scheme US$'000	Total payable US$'000	Share-based compensation US$'000	Total payable and charged in the financial statements US$'000
2008						
David M. Turnbull [(a)]	**124**	**146**	**1**	**271**	**140**	**411**
Christopher R. Buttery [(b)]	**199**	**200**	**1**	**400**	**–**	**400**
Richard M. Hext	**826**	**767**	**2**	**1,595**	**306**	**1,901**
Klaus Nyborg	**655**	**721**	**2**	**1,378**	**294**	**1,672**
Wang Chunlin	**391**	**326**	**42**	**759**	**420**	**1,179**
Jan Rindbo	**399**	**433**	**2**	**834**	**516**	**1,350**
Total	**2,594**	**2,593**	**50**	**5,237**	**1,676**	**6,913**
2007						
Christopher R. Buttery	398	400	2	800	30	830
Richard M. Hext	734	923	2	1,659	422	2,081
Klaus Nyborg	450	563	–	1,013	525	1,538
Wang Chunlin	340	340	17	697	345	1,042
Jan Rindbo [(c)]	261	326	1	588	389	977
Paul C. Over [(d)]	103	19	–	122	13	135
Total	2,286	2,571	22	4,879	1,724	6,603

(a) Mr. Turnbull was appointed as an executive Director on 1 July 2008. He was an independent non-executive Director prior to that date and the director's fee relating to that period is not included in this table.

(b) Mr. Buttery resigned on 30 June 2008.

(c) Mr. Rindbo was appointed on 1 April 2007.

(d) Mr. Over resigned on 31 March 2007.

3. Non-executive Directors' Remuneration

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

	2008 US$'000	2007 US$'000
Non-executive Directors		
Daniel R. Bradshaw	**71**	45
Dr. Lee Kwok Yin, Simon	**45**	38
	116	83
Independent non-executive Directors		
Robert C. Nicholson	**71**	58
Patrick B. Paul	**71**	51
David M. Turnbull (became executive Director on 1 July 2008)	**48**	45
Alasdair G. Morrison (appointed on 1 January 2008)	**71**	–
The Earl of Cromer (resigned on 1 January 2008)	**–**	45
	261	199
Total	**377**	282

4. Total Directors' Remuneration

The total remuneration payable to all executive and non-executive Directors and charged in the financial statements for the year ended 31 December 2008 is shown below:

	2008 US$'000	2007 US$'000
Directors' fees	**377**	282
Salaries	**2,594**	2,286
Bonus	**2,593**	2,571
Retirement benefit costs	**50**	22
Total payable	**5,614**	5,161
Share-based compensation	**1,676**	1,724
Total	**7,290**	6,885

During the year, the Group did not pay the Directors any inducement to join or upon joining the Group. No Directors waived or agreed to waive any emoluments during the year.

5. Senior Management's Remuneration

The total remuneration payable to the six (2007: four) senior management (as listed in the Directors, Senior Management and Key Staff section of this Annual Report) and charged in the financial statements for the year ended 31 December 2008 is shown below:

	2008 US$'000	2007 US$'000
Salaries	**1,691**	906
Bonus	**1,364**	965
Retirement benefit costs	**168**	66
Total payable	**3,223**	1,937
Share-based compensation	**1,066**	481
Total	**4,289**	2,418

6. Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2008 are four Directors (2007: five) whose emoluments are reflected in section 2 of this Remuneration Report. For the year ended 31 December 2008, the emoluments of the one remaining highest paid individual is shown below and fell within the emolument band of HK$7,000,001 to HK$7,500,000.

	2008 US$'000	2007 US$'000
Salaries	**320**	–
Bonus	**325**	–
Retirement benefit costs	**2**	–
Total payable	**647**	–
Share-based compensation	**278**	–
Total	**925**	–

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited financial statements of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2008.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of the Company's principal subsidiaries (set out in Note 37 to the financial statements) are primarily vessel owning and vessel chartering.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 89.

As set out in the interim report, the Board's dividend policy was amended to pay out a minimum of 50% of profits excluding vessel disposal gains, whereas previously such gains were eligible for a dividend payment. For 2008 our interim dividend payout of HK 76 cents is equivalent to 57% of our full year profit of US$298 million eligible for a dividend payment. The Board is satisfied with the dividend payout for the year and, in accordance with the policy, does not recommend a final dividend for the year.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Note 23 to the financial statements.

Donations

Charitable and other donations made by the Group during the year amounted to US$143,000.

Placing of New Shares

On 20 May 2008, the Company issued 158,598,000 new Shares at a price of HK$13.52 per Share, representing approximately 10% of the then existing share capital of the Company and 9.1% of the then enlarged share capital of the Company. The net proceeds of the placing were approximately US$271.0 million (or HK$2,112 million). The purpose of the placing was to provide equity financing for the Group's expansion initiatives including investments in Roll on Roll off vessels if and when appropriate opportunities arise, dry bulk vessels when market conditions permit, and in maritime infrastructure opportunities such as tugs.

Property, Plant and Equipment

Details of the movements in property, plant and equipment of the Group are set out in Note 6 to the financial statements.

Share Capital

Details of the movements in share capital of the Company are set out in Note 22 to the financial statements.

Distributable Reserves

Distributable reserves of the Company at 31 December 2008, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$402.9 million.

Pre-emptive Rights

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

Financial Summary

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out in the Group Financial Summary section of this Annual Report.

Purchase, Sale or Redemption of Securities

The Company purchased a total of 6,580 units of convertible bonds at face value of US$10,000 each between 13 October 2008 and 23 December 2008 at an average price of US$6,677 per unit. The purchases involved a total cash outlay of US$43,935,295, excluding accrued interest of US$514,745 and were for the purpose of saving potential repayments of US$21.9 million and related coupon payments on the convertible bonds in the period before maturity. The repurchase has resulted in a reduction of long term liabilities from the cancellation of the convertible bonds repurchased and a profit on cancellation in the income statement.

Saved as disclosed above, during the year, other than satisfying restricted share awards granted under the LTIS as disclosed below, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's Shares.

Long Term Incentive Scheme

Share options and share awards are granted to executive Directors, senior management and other employees under the Company's Long Term Incentive Scheme ("LTIS").

(a) Purpose and Eligible Participants of The LTIS

The LTIS enables the Company to grant share options and share awards to eligible participants (and their related trusts and companies), being principally directors and employees, as an incentive or reward for their contributions to the Group. The LTIS incentivises performance of participants by linking their rewards to the achievement of the Group. The value offered is related to job grade and contribution to the management of the business.

(b) Maximum Number of Shares

The total number of Shares which may be issued by the Company or transferred to (i) the trustee of the LTIS in satisfaction of share awards and (ii) in respect of options that have been granted or to be granted, under the LTIS or any other schemes must not, in aggregate, exceed 126,701,060 Shares, representing 7.25% of the Shares in issue as at the date of this Annual Report. As at the date of this Annual Report, there were 1,178,000 outstanding share options and 14,040,000 restricted shares not vested under the LTIS which represents 0.87% of the issued share capital of the Company.

(c) Limit for Each Eligible Participant

The aggregate number of Shares issued and to be issued upon exercise of share options or vesting of share awards granted in any 12 month period to an eligible participant (including both exercised and outstanding options and vesting of outstanding share awards) shall not exceed 1% of the Shares in issue as at the date of grant.

(d) Basis of Determining the Exercise Price of Options

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

All notices to exercise share options shall be accompanied by a remittance for the full amount of the subscription price for the Shares in respect of which the notice is given.

(e) Procedure of Granting Restricted Share Awards

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

(f) Remaining Life of The Scheme

The LTIS will remain in force unless terminated by resolution in a general meeting or by the Board. No further share options or share awards can be offered under the LTIS after 14 July 2014, being the 10th anniversary of the adoption of the LTIS.

(g) Awards Granted

Details of the grant of long term incentives and a summary of the movements of the outstanding incentives during the year ended 31 December 2008 under the LTIS are as follows:

(i) Share Options

	Number of share options			
	Held at 1 January 2008	Exercised during the year	Held at 31 December 2008	Exercise price per share (HK$)
Executive Directors	–	–	–	–
Senior Management	600,000	(600,000)	–	2.50
Key Staff	–	–	–	–
Other Employees	2,678,000	(1,500,000)	1,178,000	2.50
	3,278,000	(2,100,000)	1,178,000	

Notes:

(1) All share options were granted on 14 July 2004 and were fully vested and will expire on 14 July 2014.

(2) The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK$11.60.

Discharging grains in the Port of Melbourne

(ii) Restricted Share Awards

	Number of restricted share awards				
	As at 1 January 2008	Granted during the year	Vested during the year	Lapsed during the year	As at 31 December 2008
Executive Directors					
David M. Turnbull[1]	–	351,000	–	–	351,000
Richard M. Hext[2]	2,612,247	317,000	(870,747)	–	2,058,500
Klaus Nyborg[3]	2,000,000	–	(500,000)	–	1,500,000
Wang Chunlin[4]	1,170,000	145,000	(350,000)	–	965,000
Jan Rindbo[5]	1,030,000	149,000	(340,000)	–	839,000
	6,812,247	962,000	(2,060,747)	–	5,713,500
Senior Management[6]	2,150,000	590,000	(660,000)	–	2,080,000
Key Staff[7]	650,000	84,000	(210,000)	–	524,000
Other Employees[8&9]	6,727,500	2,158,000	(2,540,500)	(173,000)	6,172,000
	16,339,747	3,794,000	(5,471,247)	(173,000)	14,489,500

Notes:

(1) 351,000 Shares were granted on 5 August 2008, of which 117,000 Shares will vest on each of 2 July 2009, 2010 and 2011.

(2) An aggregate of 4,353,741 Shares (3,333,333 Shares and 1,020,408 Shares respectively granted on 8 June 2005 and on 20 March 2006) were granted, of which (i) 870,747 Shares have vested on each of 5 April 2006, 2007 and 2008, (ii) 870,746 Shares will vest on 5 April 2009 and (iii) 870,754 Shares will vest on 5 April 2010.

In addition, 317,000 Shares were granted on 5 August 2008 which will vest on 14 July 2011.

(3) 2,500,000 Shares were granted on 19 September 2006, of which (i) 500,000 Shares have vested on 19 September 2006, (ii) 500,000 Shares have vested on 4 September 2008, and (iii) an equal amount of 500,000 Shares will vest on each of 4 September 2009, 2010 and 2011.

(4) 550,000 Shares were granted on 9 March 2006, of which 110,000 Shares have vested on each of 1 March 2007 and 2008, and an equal amount of 110,000 Shares will vest on each of 1 March 2009, 2010 and 2011.

In addition, 730,000 Shares were granted on 11 May 2007, of which (i) 240,000 Shares have vested on 14 July 2008, (ii) 240,000 Shares will vest on 14 July 2009, and (iii) 250,000 Shares will vest on 14 July 2010.

A further 145,000 Shares were granted on 5 August 2008 which will vest on 14 July 2011.

(5) 1,030,000 Shares were granted on 11 May 2007, of which (i) 340,000 Shares have vested on 14 July 2008, (ii) 340,000 Shares will vest on 14 July 2009, and (iii) 350,000 Shares will vest on 14 July 2010.

In addition, 149,000 Shares were granted on 5 August 2008 which will vest on 14 July 2011.

(6) *400,000 Shares were granted on 9 March 2006, of which 80,000 Shares have vested on each of 1 March 2007 and 2008 and an equal amount of 80,000 Shares will vest on each of 1 March 2009, 2010 and 2011.*

250,000 Shares were granted on 21 July 2006, of which 50,000 Shares have vested on each of 23 August 2007 and 2008 and an equal amount of 50,000 Shares will vest on each of 23 August 2009, 2010 and 2011.

1,630,000 Shares were granted on 11 May 2007, of which (i) 530,000 Shares have vested on 14 July 2008, (ii) 530,000 Shares will vest on 14 July 2009, and (iii) 570,000 will vest on 14 July 2010.

231,000 Shares were granted on 1 April 2008, and an equal amount of 77,000 Share will vest on each of 1 April 2009, 2010 and 2011.

359,000 Shares were granted to existing restricted shares grantees on 5 August 2008 which will vest on 14 July 2011.

(7) *650,000 Shares were granted on 11 May 2007, of which (i) 210,000 Shares have vested on 14 July 2008, (ii) 210,000 Shares will vest on 14 July 2009, and (iii) 230,000 Shares will vest on 14 July 2010.*

84,000 Shares were granted to existing restricted shares grantees on 5 August 2008 which will vest on 14 July 2011.

(8) *825,000 Shares were granted on 9 March and 15 March 2006, of which (i) 175,000 Shares have vested on 1 March 2007, (ii) 162,500 Shares have vested on 1 March 2008 and an equal amount of 162,500 Shares will vest on each of 1 March 2009, 2010 and 2011.*

200,000 Shares were granted on 21 July 2006, of which (i) 40,000 Shares have vested on each of 23 August 2007 and 2008, and (ii) an equal amount of 40,000 Shares will vest on each of 23 August 2009, 2010 and 2011.

5,917,500 Shares were granted on 11 May 2007, of which (i) 1,866,000 Shares have vested on 14 July 2008, (ii) 260,000 Shares have become fully vested and 121,000 Shares lapsed due to termination of employment of certain employees in 2008, (iii) 1,717,000 Shares will vest on 14 July 2009, and (iv) 1,953,500 Shares will vest on 14 July 2010.

69,000 Shares were granted on 20 March 2008, of which 23,000 Shares have vested immediately after grant and an equal amount of 23,000 Shares will vest on each of 1 March 2009 and 2010.

99,000 Shares were granted on 5 August 2008 and an equal amount of 33,000 Shares will vest on each of 24 July 2009, 2010 and 2011.

1,114,000 Shares were granted on 5 August 2008, of which (i) 137,000 Shares have become fully vested and 40,000 Shares lapsed due to termination of employment of certain employees in 2008, (ii) 301,000 Shares will vest on 14 July 2009, (iii) 301,000 Shares will vest on 14 July 2010, and (iv) 335,000 Shares will vest on 14 July 2011.

876,000 Shares were granted to existing restricted shares grantees on 5 August 2008 which will vest on 14 July 2011. Of which 52,000 Shares have become fully vested and 12,000 Shares lapsed due to termination of employment of certain employees in 2008.

An aggregate of 449,000 Shares (as mentioned above and originally subject to annual vesting on 14 July of 2009, 2010 and 2011) have become fully vested in December 2008 due to the termination of employment of five employees during the year.

(9) *173,000 Shares lapsed as described in (8) above was due to the termination of employment of four employees during the year.*

The closing price of the Shares of the Company immediately before the 69,000, 231,000 and 3,493,000 restricted share awards granted on 20 March 2008, 1 April 2008 and 5 August 2008 were HK$10.42, HK$12.80 and HK$10.80 respectively.

(h) Valuation of the Share Options

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

Tranche	Exercise period	Fair value per share option HK$	Number of share options as at date of grant
Share options granted on 14 July 2004:			
1	14 July 2005 to 13 July 2014	0.838	18,500,000
2	14 July 2006 to 13 July 2014	0.839	18,500,000
3	14 July 2007 to 13 July 2014	0.825	18,500,000
			55,500,000

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

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

Directors

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

	Date of appointment					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Terms of appointment
Executive Directors						
David M. Turnbull[2] (Chairman of the Board)	17 May 2006	–	–	–	1 July 2008	3 years from 17 May 2008
Richard M. Hext (Chief Executive Officer & Chairman of Executive Committee)	5 April 2005	–	–	–	27 July 2005	3 years from 5 April 2008
Klaus Nyborg (Deputy Chief Executive Officer)	4 September 2006	–	–	–	4 September 2006	3 years from 4 September 2006
Wang Chunlin	1 September 2006	–	–	–	1 September 2006	3 years from 1 September 2008

	Date of appointment					
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	Terms of appointment
Jan Rindbo	1 April 2007	–	–	–	23 January 2008	3 years from 1 April 2007
Christopher R. Buttery[3] (Resigned on 30 June 2008)	15 March 2004	–	–	–	–	3 years from 1 April 2007
Non-executive Directors						
Daniel R. Bradshaw	7 April 2006	7 April 2006	7 April 2006	7 April 2006	–	3 years from 7 April 2006
Dr. Lee Kwok Yin, Simon	15 March 2004	–	15 September 2004	1 March 2005	–	3 years from 5 June 2008
Independent non-executive Directors						
Patrick B. Paul (Chairman of Audit Committee)	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years from 25 March 2007
Robert C. Nicholson (Chairman of Remuneration & Nomination Committees)	25 March 2004	18 May 2004	10 June 2004	30 November 2004	–	3 years from 25 March 2007
Alasdair G. Morrison	1 January 2008	1 January 2008	1 January 2008	1 January 2008	–	3 years from 1 January 2008

Notes:

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

(2) Mr. Turnbull was appointed the Chairman of the Board on 1 January 2008 and he became an executive Director on 1 July 2008 when he ceased his memberships of the Audit, Remuneration and Nomination Committees. Mr. Turnbull was re-elected at the 2008 annual general meeting and his term of appointment was extended for 3 years until 17 May 2011 or the conclusion of the 2011 annual general meeting, whichever is earlier.

(3) Mr. Buttery ceased his membership of the Executive Committee on 23 January 2008 and resigned as an executive Director and the Deputy Chairman with effect from 30 June 2008.

Messrs. Klaus Nyborg, Jan Rindbo and Robert C. Nicholson will retire at the forthcoming 2009 Annual General Meeting by rotation pursuant to the Company's Bye-laws 87(1) & (2), and, being eligible, will offer themselves for re-election.

In accordance with Bye-law 86(2) of the Company, Mr. Daniel R. Bradshaw whose term of appointment was extended by the Board, being eligible, will offer himself for re-election at the forthcoming 2009 Annual General Meeting.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming 2009 Annual General Meeting has a service contract with the Company which is not determinable within one year without payment of compensation, other than statutory compensation.

Directors' Interests in Contracts of Significance

No contracts of significance in relation to the Group's business to which the Company was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

Biographical Details of Directors and Senior Management

Brief biographical details of Directors and senior management are set out in the Directors, Senior Management and Key Staff section of this Annual Report.

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

At 31 December 2008, the discloseable interests and short positions of each Director and the Chief Executive in Shares, underlying Shares and debentures of the Company and its associated corporations within the meaning of Part XV of the SFO, which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO, or (b) were required to be entered in the register maintained by the Company under Section 352 of the SFO, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") were as follows:

Name of Director	Corporate interests	Personal interests	Family interests	Trust & similar interests	Number of underlying Shares under equity derivatives (share options)	Total Share interests	Approximate percentage of issued share capital of the Company
David M. Turnbull[1]	–	451,000	–	312,117[2]	–	763,117	0.04%
Richard M. Hext[1]	–	2,379,994	–	–	–	2,379,994	0.14%
Dr. Lee Kwok Yin, Simon	–	–	162,138[3]	60,677,103[3]	–	60,839,241	3.48%
Daniel R. Bradshaw	386,417[4]	–	–	–	–	386,417	0.02%
Wang Chunlin[1]	–	1,235,000	–	–	–	1,235,000	0.07%
Klaus Nyborg[1]	–	1,500,000	–	–	–	1,500,000	0.09%
Jan Rindbo[1]	–	2,370,370	–	–	–	2,370,370	0.14%
Alasdair G. Morrison	–	405,346[5]	–	–	–	405,346	0.02%

Notes:

(1) *Restricted share awards were granted under the LTIS and have been disclosed from page 76 to page 77 under the Long Term Incentive Scheme of this Report of the Directors.*

(2) *312,117 Shares are held by The Pacific 08 Trust, of which Mr. Turnbull is a founder, in the form of 77 units of convertible bonds at face value of US$10,000 each.*

(3) *The family interests of 162,138 Shares are held by Sincere Rich Co. Ltd. in the form of 40 units of convertible bonds at face value of US$10,000 each.*

The trust interests of Dr. Lee constitute 58,853,047 Shares and 1,824,056 Shares held in the form of 450 units of convertible bonds at face value of US$10,000 each.

(i) *Out of the 58,853,047 Shares, 15,288,536 Shares, 35,546,411 Shares and 8,018,100 Shares are beneficially owned by Wellex Investment Limited, Fortress Eagle Investment Limited and Invest Paradise International Limited respectively. These companies are controlled by discretionary trusts established by Dr. Lee, the discretionary objects of which include his family members.*

(ii) *Each of Fensmark Investments Limited and Alpha Market Investment Limited beneficially owns 912,028 Shares in the form of 225 units of convertible bonds. Both of these two companies are controlled by discretionary trusts established by Dr. Lee, the discretionary objects of which include his family members.*

(4) *Mr. Bradshaw is a shareholder holding 100% and 50% of the issued share capital, respectively, in Cormorant Shipping Limited and Goldeneye Shipping Limited. He beneficially owns 353,241 Shares via Cormorant Shipping Limited and is taken to be interested in the 33,176 Shares held by Goldeneye Shipping Limited.*

(5) *Mr. Morrison's personal interests of 405,346 Shares are held in the form of 100 units of convertible bonds at face value of US$10,000 each.*

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2008.

Saved as disclosed, at no time during the year was the Company, its subsidiaries, or its associated companies a party to any arrangement to enable the Directors and Chief Executive of the Company to hold any interests or short positions in the Share or underlying Shares in, or debentures of, the Company or its associated corporation.

Substantial Shareholders' Interests and Short Positions in the Shares and Underlying Shares of the Company

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 31 December 2008, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name	Capacity/ Nature of interest		Number of Shares	Approximate percentage of the issued share capital of the Company
JP Morgan Chase & Co.	Beneficial owner, investment manager and approved lending agent	Long Positions Short Positions	135,606,876 3,000,000	7.76% 0.17%

The Shares held by JP Morgan Chase & Co. are held in the capacities of beneficial owner (relating to 10,038,529 Shares), investment manager (relating to 58,791,304 Shares) and custodian corporation/approved lending agent (relating to 66,777,043 Shares).

Save as disclosed above, as at 31 December 2008, no person had registered an interest or short position in the Shares or underlying Shares of the Company that was required to be recorded pursuant to section 336 of the SFO.

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

Major Customers and Suppliers

During the year, the Group sold less than 30% of its goods and services to its five largest customers and purchased less than 30% of its goods and services from its five largest suppliers.

Connected Transactions

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

Insurance Services from Sun Hing Insurance Brokers Limited ("Sun Hing")

Sun Hing has been appointed as a provider of insurance services to the Group on a non-exclusive basis, pursuant to a supplemental agreement dated 12 September 2006 for a term of three years until 31 December 2009 ("the Agreement"). Sun Hing has provided such services in connection with arranging insurance policies in respect of the general affairs of the Group. Such services were provided to the Group on commercial terms and in the ordinary course of Sun Hing's business.

Sun Hing is approximately 36% owned indirectly by, and therefore an associate (as defined under the Listing Rules) of, Dr. Lee Kwok Yin, Simon, one of the Directors of the Company.

The Group paid to Sun Hing insurance premiums of insurance policies taken out via Sun Hing as agent during the term of the Agreement. The premiums were received by Sun Hing on behalf of the relevant insurers, and Sun Hing earned brokerage commission thereon from the insurers.

For the year ended 31 December 2008, premiums payable to Sun Hing amounted to US$0.6 million which is within the approved cap of US$0.75 million as submitted to the Stock Exchange.

In accordance with paragraph 14A.37 of the Listing Rules, the independent non-executive Directors confirmed that this transaction satisfies the following conditions:

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

(b) the continuing connected transaction has been entered into on an arm's length basis and conducted either on normal commercial terms, or where there is no available comparison, on terms no less favourable to the Group than those available to or from independent third parties; and

(c) the continuing connected transaction has been entered into in accordance with the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

In accordance with paragraph 14A.38 of the Listing Rules, the Board of Directors engaged the auditors of the Company to perform certain procedures on the above continuing connected transaction on a sample basis in accordance with Hong Kong Standard on Related Services 4400 "Engagements to Perform Agreed-Upon Procedures Regarding Financial Information" issued by the Hong Kong Institute of Certified Public Accountants. The auditors have reported their factual findings to the Board of Directors.

Based on the work performed, the auditors of the Company have reported that the aforesaid continuing connected transaction (a) has been approved by the Board of the Company; (b) has been entered into in accordance with the terms of the relevant agreement governing the transaction, based on the sample selected; and (c) has not exceeded the cap disclosed in the Company's announcement dated 12 September 2006.

It is expected that the premiums payable by the Group to Sun Hing as agent on behalf of the relevant insurers for the year ending 31 December 2009 shall not exceed US$1,100,000 (the "Annual Cap"). Such Annual Cap is estimated by the Group based on the relevant historical premiums paid by the Group, estimated future increases of such premiums, the estimated future number of employees and the estimated general insurance needs of the Group for the financial year ending 31 December 2009.

Compliance with the Code on Corporate Governance Practices

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

Audit and Remuneration Committees

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

Auditors

The financial statements have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

Public Float

On the basis of information that is publicly available to the Company and within the knowledge of the Directors as at the date of this Annual Report, the Company has complied with the public float requirements of the Listing Rules.

By Order of the Board

Andrew T. Broomhead
Company Secretary

Hong Kong, 2 March 2009

FINANCIAL STATEMENTS

TO THE SHAREHOLDERS OF PACIFIC BASIN SHIPPING LIMITED

(incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together, the "Group") set out on pages 86 to 155, which comprise the consolidated and company balance sheets as at 31 December 2008, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Directors of the Company are responsible for the preparation and the true and fair presentation of these consolidated financial statements in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and true and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2008 and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

PricewaterhouseCoopers.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 2 March 2009

CONSOLIDATED BALANCE SHEET

As at 31 December 2008

	Note	2008 US$'000	2007 US$'000
Non-current assets			
Property, plant and equipment	6	**794,622**	755,865
Land use rights	7	**3,035**	419
Goodwill	8	**25,256**	36,426
Interests in jointly controlled entities	10	**50,806**	19,543
Investments in associates	11	**2,864**	–
Available-for-sale financial assets	12	**43,454**	–
Derivative assets	13	**10,915**	10,885
Trade and other receivables	14	**9,517**	10,662
Restricted bank deposits	15	**4,757**	–
Other non-current assets	16	**56,238**	–
		1,001,464	833,800
Current assets			
Inventories	17	**24,291**	27,312
Derivative assets	13	**68,682**	25,327
Financial assets at fair value through profit or loss		**–**	20,046
Assets held for sale	18	**65,891**	–
Trade and other receivables	14	**151,193**	98,316
Restricted bank deposits	15	**44,108**	–
Cash and cash equivalents	15	**974,876**	649,535
		1,329,041	820,536
Current liabilities			
Derivative liabilities	13	**51,815**	28,582
Trade and other payables	19	**154,691**	96,374
Current portion of long term borrowings	20	**58,679**	23,627
Taxation payable		**3,553**	1,548
Provision for onerous contracts	21	**28,179**	–
		296,917	150,131
Net current assets		**1,032,124**	670,405
Total assets less current liabilities		**2,033,588**	1,504,205

	Note	**2008** ***US$'000***	2007 *US$'000*
Non-current liabilities			
Long term borrowings	20	**789,133**	636,638
Provision for onerous contracts	21	**25,753**	–
		814,886	636,638
Net assets		**1,218,702**	867,567
Equity			
Capital and reserves attributable to shareholders			
Share capital	22	**174,714**	158,403
Retained profits	23	**568,648**	480,907
Other reserves	23	**475,340**	227,826
		1,218,702	867,136
Minority interests		**–**	431
Total equity		**1,218,702**	867,567

Approved by the Board of Directors on 2 March 2009

Richard M. Hext
Director

Klaus Nyborg
Director

BALANCE SHEET OF THE COMPANY
As at 31 December 2008

	Note	2008 **US$'000**	2007 US$'000
Non-current assets			
Investments in subsidiaries	9	**223,931**	223,931
Current assets			
Prepayments and other receivables		**157**	683
Amounts due from subsidiaries	9	**1,197,190**	493,440
Cash and cash equivalents	15	**15**	360,020
		1,197,362	854,143
Current liabilities			
Accruals and other payables		**115**	295
Amount due to a subsidiary	9	**331,749**	384,382
		331,864	384,677
Net current assets		**865,498**	469,466
Total assets less current liabilities		**1,089,429**	693,397
Equity			
Share capital	22	**174,714**	158,403
Retained profits	23	**402,858**	283,546
Other reserves	23	**511,857**	251,448
Total equity		**1,089,429**	693,397

Approved by the Board of Directors on 2 March 2009

Richard Hext

Richard M. Hext
Director

Klaus Nyborg.

Klaus Nyborg
Director

	Note	2008 *US$'000*	2007 *US$'000*
Revenue	5	**1,690,948**	1,177,292
Bunkers, port disbursements, other charges and amounts payable to other pool members	5, 24	**(781,531)**	(476,819)
Time charter equivalent earnings	5	**909,417**	700,473
Direct costs	24	**(544,600)**	(315,951)
General and administrative expenses	24	**(18,007)**	(17,798)
Other income	25	**163,921**	81,651
Other expenses	24	**(229,297)**	(103,228)
Gains on disposal of property, plant and equipment	32(b)	**149,818**	137,437
Finance costs, net	27	**(22,125)**	(17,847)
Share of profits less losses of jointly controlled entities	10	**3,568**	8,284
Share of losses of associates	11	**(287)**	–
Profit before taxation		**412,408**	473,021
Taxation	28	**(3,618)**	(889)
Profit for the year		**408,790**	472,132
Attributable to:			
Shareholders		**409,119**	472,125
Minority interests		**(329)**	7
		408,790	472,132
Dividends	30	**170,142**	244,127
Earnings per share for profit attributable to shareholders			
Basic	31(a)	**US 24.29 cents**	US 30.05 cents
Diluted	31(b)	**US 24.28 cents**	US 30.00 cents

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2008

	Note	**Capital and reserves attributable to shareholders** ***US$'000***	**Minority interests** ***US$'000***	**Total** ***US$'000***
Balance at 1 January 2008		**867,136**	**431**	**867,567**
Currency translation differences		**(21,119)**	**(88)**	**(21,207)**
Movement of cash flow hedges	23	**13,921**	**–**	**13,921**
Gains on repurchase and cancellation of convertible bonds	20(c)	**1,589**	**–**	**1,589**
Net losses recognised directly in equity		**(5,609)**	**(88)**	**(5,697)**
Profit for the year		**409,119**	**(329)**	**408,790**
Total recognised income/(losses) for the year		**403,510**	**(417)**	**403,093**
Shares issued upon exercise of share options	22(a)	**673**	**–**	**673**
Shares purchased by trustee of the LTIS	22	**(1,759)**	**–**	**(1,759)**
Shares issued upon placing of new shares, net of issuing expenses	22(c)	**270,952**	**–**	**270,952**
Shared-based compensation		**6,854**	**–**	**6,854**
Repurchase and cancellation of convertible bonds	20(c)	**(5,697)**	**–**	**(5,697)**
Dividends paid	30	**(322,967)**	**–**	**(322,967)**
Minority interests arising from business combination		**–**	**53**	**53**
Acquisition of partial interests in certain subsidiaries		**–**	**(67)**	**(67)**
Balance at 31 December 2008		**1,218,702**	**–**	**1,218,702**

	Note	Capital and reserves attributable to shareholders *US$'000*	Minority interests *US$'000*	Total *US$'000*
Balance at 1 January 2007		484,993	–	484,993
Currency translation differences		141	–	141
Movement of cash flow hedges	23	3,394	–	3,394
Net income recognised directly in equity		3,535	–	3,535
Profit for the year		472,125	7	472,132
Total recognised income for the year		475,660	7	475,667
Shares issued upon exercise of share options	22(a)	5,753	–	5,753
Shares purchased by trustee of the LTIS	22	(2,033)	–	(2,033)
Equity component of convertible bonds issued		33,764	–	33,764
Shared-based compensation		5,265	–	5,265
Dividends paid	30	(136,266)	–	(136,266)
Contribution from minority shareholder		–	424	424
Balance at 31 December 2007		867,136	431	867,567

	Note	**2008 *US$'000***	2007 *US$'000*
Operating activities			
Cash generated from operations	32(a)	**460,696**	315,017
Hong Kong profits tax paid		**(980)**	(542)
Overseas taxation paid		**(633)**	(496)
Net cash from operating activities		**459,083**	313,979
Investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired	34(c)	**(16,366)**	(12,371)
Purchase of property, plant and equipment		**(321,994)**	(259,373)
Disposal of property, plant and equipment	32(b)	**313,540**	365,861
Purchase of land use rights		**(2,648)**	–
Adjustment for contingent considerations paid for acquisition of subsidiaries	8	**(187)**	–
Investments in jointly controlled entities		**(28,461)**	–
Disposal of jointly controlled entities		**1,628**	–
Increase in loan to a jointly controlled entity		**(40,000)**	(1,526)
Dividends received from a jointly controlled entity		**441**	–
Loan repayment received from jointly controlled entities		**5,026**	540
Payment for available-for-sale financial assets		**(66,502)**	–
Acquisition of associates		**(5,949)**	–
Increase in loan to an associate		**(1,191)**	–
Payment for other non-current assets	16	**(56,238)**	–
Interest received		**22,584**	6,256
Dividend received from financial assets at fair value through profit or loss		**398**	1,230
Increase in restricted bank deposits		**(49,882)**	–
Receipt of finance lease receivables – capital element		**1,305**	1,365
Net cash (used in)/from investing activities		**(244,496)**	101,982
Financing activities			
Proceeds from shares issued upon placing of new shares, net of issuing expenses	22(c)	**270,952**	–
Proceeds from issuance of convertible bonds, net of issuing expenses		**–**	384,231
Payment for repurchase and cancellation of convertible bonds	20(c)	**(44,528)**	–
Payment for shares purchased by trustee of the LTIS	22	**(1,759)**	(2,033)
Proceeds from shares issued upon exercise of share options	22(a)	**673**	5,753
Repayment of bank loans		**(31,029)**	(174,000)
Drawdown of bank loans		**347,800**	145,000
Interest and other finance charges paid		**(30,741)**	(21,965)
Dividends paid to shareholders of the Company		**(322,967)**	(136,266)
Repayment of finance lease payables – capital element		**(77,647)**	(30,812)
Contribution from minority shareholder		**–**	424
Net cash from financing activities		**110,754**	170,332
Net increase in cash and cash equivalents		**325,341**	586,293
Cash and cash equivalents at 1 January		**649,535**	63,242
Cash and cash equivalents at 31 December		**974,876**	649,535

1 General Information

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

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

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

These financial statements have been approved for issue by the Board of Directors on 2 March 2009.

2 Summary of Significant Accounting Policies

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

2.1 Basis of preparation

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

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

In 2008, the Group adopted the new/revised standards and interpretations to the published standards which are relevant to its operation.

HK (IFRIC) – Int 11	HKFRS 2 – Group and Treasury Shares Transactions
HKAS 39 and HKFRS 7 (Amendment)	Financial Instruments: Recognition and Measurement and Financial Instruments: Disclosures – Reclassification of Financial Assets

The adoption of these new/revised standards and interpretations did not result in any substantial changes to the Group's accounting policies.

Certain new standards, amendments and interpretations to the published standards are mandatory for accounting period beginning on or after 1 January 2009 or later periods. The Group was not required to adopt these new standards, amendments and interpretations in the financial statements for the year ended 31 December 2008. The new standards, amendments and interpretations that are relevant to the Group's operation are as follows:

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (continued)

HKAS 1 and HKAS 32 (Amendments)	Presentation of Financial Statements and Financial Instruments: Presentation – Puttable Financial Instruments and Obligations Arising on Liquidation
HKAS 1 (Revised)	Presentation of Financial Statements
HKAS 23 (Revised)	Borrowing Costs
HKAS 27 and HKFRS 1 (Amendments)	Consolidated and Separate Financial Statements and First-time Adoption of Hong Kong Financial Reporting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
HKAS 27 (Revised) and HKFRS 3 (Revised)	Consolidated and Separate Financial Statements and Business Combinations
HKAS 39 (Amendment)	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
HKFRS 1 (Revised)	First-time Adoption of HKFRS
HKFRS 2 (Amendment)	Share-based Payment – Vesting Conditions and Cancellations
HKFRS 8	Operating Segments
HK(IFRIC) – Int 16	Hedges of a Net Investment in a Foreign Operation

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(i) ***Subsidiaries***

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

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

2 Summary of Significant Accounting Policies (Continued)

2.2 Consolidation (continued)

(ii) Transactions and minority interests

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated income statement. Purchases from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

(iii) Jointly controlled entities

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

Interests in jointly controlled entities are accounted for in the consolidated financial statements under the equity method and are stated at cost plus share of post-acquisition results and reserves and goodwill on the acquisition less provision for impairment losses. The share of post-acquisition results and reserves is based on the relevant profit sharing ratios.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that results from the purchase of assets by the Group from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss. Accounting policies of jointly controlled entities have been changed where necessary to ensure consistency with the policies adopted by the Group.

(iv) Associates

Associates are all entities over which the Group has significant influence but no control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting and are initially recognised at cost. The Group's investments in associates include goodwill (net of any accumulated impairment loss) identified on acquisition.

The Group's share of its associates' post-acquisition profits or losses is recognised in the consolidated income statement, and its share of post-acquisition movements in reserves is recognised in reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate.

Unrealised gains on transactions between the Group and its associates are eliminated to the extent of the Group's interest in the associates. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

2 Summary of Significant Accounting Policies (Continued)

2.3 Segment reporting

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

2.4 Foreign currency translation

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

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

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

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in “general and administrative expenses” of the income statement, except when deferred in equity as qualifying cash flow hedges.

Translation differences on non-monetary financial assets and liabilities are reported as part of the fair value gain or loss. Translation difference on non-monetary financial assets and liabilities such as equities held at fair value through profit or loss are recognised in the income statement as part of the fair value gain or loss.

(iii) ***Group companies***

The results and financial position of all the Group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities on each balance sheet are translated at the closing rate on the balance sheet date;

(b) income and expenses on each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders’ equity. When a foreign operation is partially or totally disposed of, exchange differences that were recorded in equity are recognised in the consolidated income statement as part of the gain or loss on sale.

Goodwill and fair value adjustments arising on the acquisition of a foreign entity are treated as assets and liabilities of the foreign entity and translated at the closing rate on the balance sheet date.

2 Summary of Significant Accounting Policies (Continued)

2.5 Property, plant and equipment

(i) Vessels under construction

Vessels under construction are stated at cost and are not depreciated. All direct costs relating to the construction of vessels, including finance costs on related borrowed funds during the construction period, are capitalised as cost of vessels. When the assets concerned are brought into use, the costs are transferred to vessels and vessel component costs and depreciated in accordance with the policy as stated in (ii) below.

(ii) Vessels and vessel component costs

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

Depreciation of vessels is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives of 25 years from the date of first registration.

Vessel component costs include the cost of major components which are usually replaced or renewed at drydockings. The assets are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the straight-line method over the estimated period to the first drydocking. The Group subsequently capitalises drydocking costs as they are incurred and depreciates these costs over their estimated useful lives.

(iii) Other property, plant and equipment

Other property, plant and equipment, comprising buildings, leasehold improvements, furniture, fixtures and equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using the straight-line method to allocate their costs to their residual values over their estimated useful lives, as follows:

Buildings	50 years
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

(iv) Subsequent expenditure

Subsequent expenditure are included in the carrying amount of the assets or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the expenditure will flow to the Group and such expenditure can be measured reliably. The carrying amount of the replaced part is derecognised. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

(v) Residual values and useful lives

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

(vi) Gains or losses on disposal

Gains or losses on disposal are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2 Summary of Significant Accounting Policies (Continued)

2.6 Goodwill

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

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold.

For the purpose of impairment testing, goodwill is allocated to the cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.7 Impairment of investments in subsidiaries and non-financial assets

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

2.8 Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating lease.

(a) Where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet and, where applicable, are depreciated in accordance with the Group's depreciation policies as set out in Note 2.5. Revenue arising from assets leased out under operating leases is recognised on a straight-line basis over the lease periods.

(b) Where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease periods.

2 Summary of Significant Accounting Policies (Continued)

2.8 Leases (continued)

(ii) Finance leases

Leases of assets where the lessee has substantially all the risks and rewards of ownership of such assets are classified as finance leases.

(a) *Where the Group is the lessor*

When assets are leased out under finance leases, the present value of the lease payments is recognised as receivables. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance lease interest income. Lease interest income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(b) *Where the Group is the lessee*

Finance leased assets are capitalised at the commencement of the lease at the lower of the fair value of the leased assets and the present value of the minimum lease payments. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate of interest on the remaining balance of the liability. The finance lease liabilities are included in current and non-current borrowings. The finance charges are expensed in the income statement over the lease periods so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives or the lease periods.

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

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

(a) *Finance leases*

Sale and leaseback arrangements that result in the Group retaining the majority of the risks and rewards of ownership of assets are accounted for as finance leases. Any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. Please refer to (ii)(b) for the accounting treatment.

(b) *Operating leases*

Sale and leaseback arrangements that result in substantially all of the risks and rewards of ownership of assets being transferred to the lessor are accounted for as operating leases. Any excess of sales proceeds over the carrying amount is recognised in the income statement as gain on disposal, if the sales prices and lease back arrangements for these transactions are determined based on the prevailing market prices. Please refer to (i)(b) for the accounting treatment.

2 Summary of Significant Accounting Policies (Continued)

2.9 Financial assets

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

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

(ii) Loans and receivables; and

(iii) Available-for sale financial assets

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates their classification at each balance sheet date.

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

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. Assets in this category are classified as current assets.

Financial assets at fair value through profit or loss are initially recognised at fair value, and transaction costs are expensed in the income statement, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the other income in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

In the cash flow statement, financial assets at fair value through profit or loss are presented within "operating activities" as part of changes in working capital.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Trade and other receivables and cash and cash equivalents in the balance sheet are classified as loans and receivables.

Loans and receivables are recognised initially at fair value, plus transaction costs incurred. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

2 Summary of Significant Accounting Policies (Continued)

2.9 Financial assets (continued)

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories under financial assets. They are included in non-current assets unless management intends to dispose of them within twelve months from the balance sheet date. Assets in this category are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised in equity.

When securities classified as available-for-sale are sold or impaired, the accumulated fair value adjustments recognised in equity are included in the income statement.

Interest on available-for-sale securities calculated using the effective interest method is recognised in the income statement as part of finance income. Dividends on available-for-sale equity instruments are recognised in the income statement as part of other income when the Group's right to receive payments is established.

Purchases and sales of financial assets are recognised on the dates of trade, when the Group commits to purchase or sell the assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

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

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the consolidated income statement. Impairment losses recognised in the consolidated income statement on equity securities are not reversed through the consolidated income statement. Impairment testing of trade receivables is described in Note 2.13.

2 Summary of Significant Accounting Policies (Continued)

2.10 Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

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

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months after the balance sheet date. Trading derivative is classified as a current asset or liability.

(i) ***Cash flow hedge***

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

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability. The deferred amounts are ultimately recognised in depreciation in the case of property, plant and equipment.

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

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

Derivative instruments that do not qualify for hedge accounting are accounted for as financial assets and liabilities at fair value through profit or loss. Changes in the fair value of these derivative instruments are recognised immediately in the income statement.

2.11 Assets held for sale

Non-current assets are classified as assets held-for-sale when their carrying amount is to be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable. They are stated at the lower of carrying amount and fair value less costs to sell.

2.12 Inventories

Inventories mainly comprise bunkers on board vessels and lubricating oil. Inventories are stated at the lower of cost and net realisable value. Costs are calculated on a first-in first-out basis. Net realisable value is the expected amount to be realised from use as estimated by the management.

2 Summary of Significant Accounting Policies (Continued)

2.13 Trade and other receivables

Trade receivables mainly represent freight and charter-hire receivables which are recognised initially at fair value and subsequently measured at amortised cost using effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect the amount due according to the original terms of that receivable. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments are considered indicators that the trade receivable is impaired. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. The carrying amount of the assets is reduced through the use of an allowance account, and the amount of the loss is recognised in the income statement within "bunkers, port disbursements, other charges and amounts payable to other pool members". When a trade receivable is uncollectable, it is written off against the allowance account.

2.14 Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held with banks and other short term highly liquid investments with original maturities of three months or less.

2.15 Provisions

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and a reliable estimate of the amount can be made. Provisions are not recognised for future operating losses.

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

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognised as interest expense.

2.16 Share capital

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

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

2 Summary of Significant Accounting Policies (Continued)

2.17 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

At initial recognition, the fair value of the liability component of the convertible bonds is determined using a market interest rate for an equivalent non-convertible bond. The remainder of the proceeds is allocated to the conversion option as an equity component, recognised in equity and net of tax. Transaction costs are allocated to the liability and equity components in proportion to the allocation of proceeds. The liability component is subsequently carried at amortised cost, calculated using the effective interest method, until extinguished on conversion or maturity.

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

2.18 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.19 Land use rights

The upfront prepayments made for land use rights are expensed in the income statement on a straight line basis over the period of the lease or, when there is impairment, it is recognised immediately.

2.20 Current and deferred income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company and its subsidiaries, jointly controlled entities and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulations is subject to interpretation and establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred income tax 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 financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred income 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 income tax is provided on temporary differences arising on investments in subsidiaries, jointly controlled entities and associates, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2 Summary of Significant Accounting Policies (Continued)

2.21 Financial guarantee contracts

Financial guarantee contracts are contracts that require the issuer (i.e. the guarantor) to make specified payments to reimburse the beneficiary holder of the guarantee (i.e. the holder) for a loss the holder incurs because a specified debtor fails to make payment when due in accordance with the terms of a debt instrument.

Financial guarantee contracts are initially recognised at their fair values, and subsequently measured at the higher of (i) the amount initially recognised less accumulated amortisation; and (ii) the amount required to be settled by the guarantor in respect of the financial guarantee contracts at the balance sheet date.

2.22 Revenue recognition

Revenue comprises the fair value of the consideration for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of returns, rebates and discounts and after eliminating sales within the Group.

(i) Freight and charter-hire

The Group generates revenue from shipping activities, the principal sources of which are derived from the Pacific Basin – IHC ("IHC") Pool and Pacific Basin – IHX ("IHX") Pool.

Revenues from the IHC Pool and IHX Pool are derived from a combination of time charters and voyage charters. Revenue from time charter is recognised on a straight-line basis over the period of each lease. Revenue from voyage charter is recognised on a percentage-of-completion basis, which is determined on time proportion method of each individual voyage.

(ii) Ship management

Ship management income is recognised when the services are rendered.

(iii) Others

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

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

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

2 Summary of Significant Accounting Policies (Continued)

2.23 Pool accounting

The Group generates its revenue principally from charter-hire, which to a large extent is conducted through two pools, namely the IHC Pool and the IHX Pool. The pools are contractual arrangements for the sharing of net earnings from the participating vessels contributed by the members. Revenues and voyage costs of the vessels operating in the pool arrangements are pooled and the resulting net earnings, calculated on a time charter equivalent basis, are allocated to the pool participants according to an agreed formula. The formula used to allocate net pool earnings is on the basis of the number of days a vessel operates in the pool, together with weighting adjustments made to reflect differing capacities and performance capabilities of the vessels.

The pools are regarded as special purpose entities of the Group as the Group contributes the majority of the vessels in the pools and manages the pools' operations. Accordingly revenue, expenses, assets and liabilities arising from the pooling arrangements are consolidated in accordance with the Group's policy as set out in Note 2.2 to the financial statements. The contractual arrangements between the other pool members and the pools are regarded as operating leases of the participating vessels. The allocation of the pools' earnings attributable to each leased vessel are recorded as lease payments in the Group's financial statements.

Time charter equivalent earnings on the income statement primarily represent the Group's allocated pools' earnings, after the deduction of the lease payments made to the other pool members.

2.24 Employee benefits

(i) Bonuses

The Group recognises a liability and expenses for bonuses when there is a contractual obligation or where there is a past practice that created a constructive obligation.

(ii) Retirement benefit obligations

Mandatory Provident Fund Scheme

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme'') under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF scheme, the employer and its employees are each required to make contributions to the scheme at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$20,000. The Group also makes voluntary contribution in addition. The Group's contributions to the scheme are expensed as incurred. When employees leave the scheme prior to the full vesting of the employer's voluntary contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

2 Summary of Significant Accounting Policies (Continued)

2.24 Employee benefits (continued)

(ii) ***Retirement benefit obligations (continued)***

Other defined contribution schemes

The Group also operates a number of defined contribution retirement schemes outside Hong Kong. The assets of these schemes are generally held in separate administered funds. The retirement benefit schemes are generally funded by payments from employees and by the relevant group companies, taking into account the contribution rates according to local statutory requirements.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to contributions being fully vested.

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

The Group operates an equity-settled, share-based compensation scheme.

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

The total amount to be expensed is determined by reference to the fair value of the equity instruments granted, excluding the impact of any non-market service and performance vesting conditions (for example, requirement of an employee to remain in employment for a specified time period). Non-market vesting conditions are included in assumptions about the number of equity instruments that are expected to vest. The total amount expensed is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied. At each balance sheet date, the entity revises its estimates of the number of equity instruments that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision of the original estimates, if any, in the consolidated income statement with a corresponding adjustment to equity.

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

2.25 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use. Other borrowing costs are expensed.

2.26 Dividends

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or Directors, where appropriate.

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

2 Summary of Significant Accounting Policies (Continued)

2.27 Contingent liabilities and contingent assets

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

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it will then be recognised as a provision.

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

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

3 Financial Risk Management

3.1 Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including charter rate risk, interest rate risk, bunker price risk, foreign exchange risk and equity securities price risk), credit and counterparty risk and liquidity risk. The Group's overall risk management programme seeks to manage and minimise potential adverse effects on the Group's financial performance whilst leaving the Group exposed to levels of risk that are considered acceptable. The Group uses derivative financial instruments to mitigate certain risk exposures.

The Group's Risk Management Committee identifies the financial risks associated with the Group. The Risk Management Committee works closely with the Audit Committee and the Board of Directors to review the controls and procedures for managing the risks identified. Details of the financial risks of the Group are explained in the following sections.

3 Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(i) Market risk

(a) Charter rate risk

The Group's operating revenue principally comprises income from voyages carried out by its fleet of vessels and this income is highly dependent on the prevailing market conditions, as reflected in freight rates. In order to mitigate part of its future freight exposure, the Group enters into Forward Freight Agreements ("FFAs"). These FFA contracts, coupled with contracts of affreightment for the movement of cargoes, form part of the Group's overall revenue cover for its physical fleet of vessels. This cover is expected to be at least 50% of the next 12 months' vessel voyage capacity.

The Group enters into FFAs on a limited basis under the policy approved by the Board of Directors to manage its exposure to charter rate risk arising from uncovered tonnage and outstanding cargo commitments.

The Group is exposed to charter rate risk arising from the outstanding FFAs at the year end. As at 31 December 2008, the Group had derivative financial assets and liabilities in respect of FFAs of US$61.8 million (2007: US$8.3 million) and US$5.3 million (2007: US$24.5 million) respectively (Note 13(c)).

With all other variables held constant, if the average forward freight rate on FFA contracts held by the Group at the balance sheet date had been 20% higher/lower, the Group's profit after tax and equity would decrease/increase by approximately US$7.5 million (2007: US$7.8 million). Future movements in charter rates will be reflected in the eventual operating revenue derived from the vessels, which would offset such decrease/increase of the Group's profit after tax and equity.

(b) Interest rate risk

The Group's interest rate risk arises from the interest bearing assets specified in Note 15 and the long term borrowings specified in Note 20. The Group maintains a mixed portfolio of borrowings subject to floating and fixed interest rates. In addition, the Group enters into interest rate swap contracts with lending banks to hedge against the exposure arising from the floating interest rates, if necessary. The Group also regularly analyses its interest rate exposure by considering refinancing, alternative financing and hedging.

As at 31 December 2008, 39% (2007: 3%) of the Group's total long term borrowings subject to floating rates but the Group managed part of these exposures by way of interest rate swap contracts. As at 31 December 2008, the Group had derivative financial liabilities in respect of interest rate swap contracts of US$12.7 million (2007: US$3.7 million) (Note 13 (d)).

With all other variables held constant, if the average interest rate on net cash subject to floating interest rate, which includes cash and cash equivalents net of unhedged bank loans, held by the Group at the balance sheet date had been 50 basis point higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$3.9 million (2007: US$3.3 million).

3 Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(i) Market risk (continued)

(c) Bunker price risk

Bunker cost is part of the voyage expenses and is a significant cost item to the Group. Much of the Group's chartering business is conducted through long term contracts of affreightment. The freight rates stipulated in such contracts take into account all the expected voyage costs, including bunker consumption, at the time the contracts are entered into. The Group is therefore exposed to fluctuation in bunker price between the dates of the long term contracts of affreightment and the dates of bunker purchase.

The Group manages its expected future bunker requirement for each long term contract of affreightment in order to eliminate its exposure to future oil price fluctuations by entering into bunker swap contracts at the time of negotiation of each contract of affreightment.

As at 31 December 2008, the Group had derivative financial assets and liabilities in respect of bunker swap contracts of US$0.3 million (2007: US$27.0 million) and US$33.8 million (2007: US$0.05 million) respectively (Note 13(b)).

With all other variables held constant, if the average forward bunker rate on the bunker swap contracts held by the Group at the balance sheet date had been 10% higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$5.4 million (2007: US$15.2 million). Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which would offset such increase/decrease of the Group's profit after tax and equity.

(d) Foreign exchange risk

The functional currency of most of the operating companies within the Group is United States Dollars as the majority of the transactions are denominated in this currency. The Group operates internationally and is exposed to foreign exchange risk arising from non-functional currency transactions.

In addition, foreign exchange risk arises from the purchase of vessels in foreign currencies. To mitigate such exposure, the Group enters into forward foreign exchange contracts to hedge its future purchase payments with terms that match the payment schedules of the vessels.

The Group has limited exposure to the fluctuation of foreign exchange rate. As at 31 December 2008, the Group had derivative financial assets and liabilities in respect of forward foreign exchange contracts of US$17.6 million (2007: US$0.8 million) and nil (2007: US$0.3 million) respectively to cover the future purchase payments denominated in Japanese Yen, Euros and United States Dollars (Note 13(a)).

3 Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(i) Market risk (continued)

(e) Equity securities price risk

The Group is exposed to equity securities price risk. As at 31 December 2008, the Group had available-for-sale financial assets of US$43.5 million (2007: nil) (Note 12). The Group has a team to monitor the performance of the equity securities and reports regularly to the Board of Directors.

With all other variables held constant, if the average market price of equity securities had been 10% higher/lower, the Group's profit after tax/equity would increase/decrease by approximately US$4.3 million (2007: nil).

(ii) Credit and counterparty risk

The credit and counterparty risk of the Group mainly arises from trade and other receivables, derivative financial instruments and deposits with banks and financial institutions. The carrying amounts of these balances substantially represent the Group's maximum exposure to credit and counterparty risk as at 31 December 2008.

The Group has limited credit and counterparty risk with its banks, financial institutions and derivative counterparties, which are leading and reputable and are assessed as having low credit risk. The Group mainly trades with banks, financial institutions and derivative counterparties with a minimum Standard & Poor's rating of A. The Group has not had any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

The Group has limited credit and counterparty risk and no significant concentration of credit and counterparty risk with trade receivables since 95% to 100% of freight is payable upon completion of loading, with the balance payable after completion of discharge. Besides, long term contracts are fixed with large agricultural, industrial and mining companies or companies with a successful track record and reputation. The Group has policies in place to assess the credit worthiness of customers to ensure vessels are chartered to customers with an appropriate credit history. Credit terms are not normally given to customers, and payments are due upon the issue of invoices. The Group has not had any significant loss arising from non-performance by these parties in the past and management does not expect so in the future.

(iii) Liquidity risk

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

The Group closely monitors its exposure to liquidity risk by reviewing the cash position report on a weekly basis. It analyses efficiency of fund management, appropriateness on the drawdown and repayment of bank loans and appoints dedicated personnel to ensure loans are serviced on a timely and accurate basis.

The table below analyses the maturity profile of the Group's financial liabilities, net-settled financial liabilities and gross-settled financial instruments based on the remaining period from the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

3 Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(iii) Liquidity risk (continued)

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000	Total US$'000
At 31 December 2008					
Long term liabilities					
– Gross liabilities under finance lease	28,137	28,114	84,287	152,653	293,191
– Bank borrowings	54,961	40,203	124,846	167,103	387,113
– Convertible bonds	10,699	10,699	350,947	-	372,345
	93,797	79,016	560,080	319,756	1,052,649
Net-settled financial liabilities (Note a)					
– Interest rate swap contracts	12,744	-	-	-	12,744
– Bunker swap contracts	33,764	-	-	-	33,764
– Forward freight agreements	5,307	-	-	-	5,307
	51,815	-	-	-	51,815
Gross-settled financial instruments (Note b)					
– Forward foreign exchange contracts					
Cash flow hedges:					
– outflow	38,363	120,655	-	-	159,018
– inflow	(45,044)	(131,570)	-	-	(176,614)
Net inflow	(6,681)	(10,915)	-	-	(17,596)
Current liabilities					
– Trade and other payables	124,790	-	-	-	124,790

	Less than 1 year US$'000	Between 1 and 2 years US$'000	Between 2 and 5 years US$'000	Over 5 years US$'000	Total US$'000
At 31 December 2007					
Long term liabilities					
– Gross liabilities under finance lease	37,616	39,058	110,624	235,137	422,435
– Bank borrowings	7,999	7,548	5,985	–	21,532
– Convertible bonds	7,915	12,870	38,610	396,435	455,830
	53,530	59,476	155,219	631,572	899,797
Net-settled financial liabilities (Note a)					
– Interest rate swap contracts	3,685	–	–	–	3,685
– Bunker swap contracts	45	–	–	–	45
– Forward freight agreements	24,541	–	–	–	24,541
	28,271	–	–	–	28,271
Gross-settled financial instruments (Note b)					
– Forward foreign exchange contracts					
Cash flow hedges:					
– outflow	96,091	21,151	–	–	117,242
– inflow	(96,302)	(21,480)	–	–	(117,782)
Net inflow	(211)	(329)	–	–	(540)
Current liabilities					
– Trade and other payables	72,844	–	–	–	72,844

3 Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(iii) Liquidity risk (continued)

(a) Net-settled derivative financial instruments represent derivative financial liabilities whose terms result in settlement by a netting mechanism, such as settling the difference between the contract price and the market price of the financial liabilities.

(b) Gross-settled derivative financial instruments represent derivative financial assets or liabilities which are not settled by the above mentioned netting mechanism.

The Company does not expose to any individual significant financial risk in 2007 and 2008.

3.2 Capital risk management

The Group's objectives when managing capital are to safeguard the Group's ability to operate as a going concern in order to provide adequate returns for shareholders and benefits for other stakeholders, to support the Group's stability and growth; and to provide capital for the purpose of strengthening the Group's financial management capability.

The Group actively and regularly reviews and manages its capital structure to ensure an optimal capital structure and shareholder returns, taking into consideration the future capital requirements of the Group and capital efficiency, prevailing and projected profitability, projected operating cash flows, projected capital expenditures and projected strategic investment opportunities. The Group adopts a dividend policy of providing shareholders with regular dividends with a payout ratio of no less than 50 per cent of the profit eligible for dividend for the year, while the remaining profit is retained as capital of the Group for future use.

As part of the capital risk management process, the Board of Directors monitors on a monthly basis the ratio of net cash/(debt) to property, plant and equipment and the ratio of net cash/(debt) to shareholders' equity as shown below.

	2008 ***US$'000***	2007 *US$'000*
Bank balances and cash (Note 15)	**1,023,741**	649,535
Less: Total long term borrowings (Note 20)	**(847,812)**	(660,265)
Net cash/(borrowings)	**175,929**	(10,730)
Shareholders' equity	**1,218,702**	867,567
Net book value of property, plant and equipment (Note 6)	**794,622**	755,865
Net cash/(debt) to shareholders' equity ratio	**14%**	(1%)
Net cash/(debt) to property, plant and equipment ratio	**22%**	(1%)

3 Financial Risk Management (Continued)

3.3 Fair value estimation

The carrying amounts of the financial instruments of the Group are as follows:

(i) Derivative assets and liabilities held by the Group are mainly over-the-counter derivatives which are not traded in an active market. The fair values of forward freight agreements and forward foreign exchange contracts are determined using forward freight rates and forward exchange market rates at the balance sheet date respectively. The fair values of interest rate swap contracts and bunker swap contracts are quoted by dealers as at the balance sheet date.

(ii) The fair value of long term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(iii) The fair value of financial assets at fair value through profit or loss is estimated by using the bid price from an active market at the balance sheet date.

(iv) The fair value of available-for-sale financial assets are estimated by using the bid price from an active market at the balance sheet date for listed equity securities along with financial and operating statements from the underlying entities for unlisted equity securities.

(v) The carrying values of amounts due from subsidiaries, trade and other receivables, cash and cash equivalents and trade and other payables are assumed to approximate their fair values due to the short term maturities of these assets and liabilities.

4 Critical Accounting Estimates and Judgements

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

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

(i) Residual values of property, plant and equipment

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

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

With all other variables held constant, if the residual value increases/decreases by 10% from management estimates, the depreciation expense would decrease/increase by US$0.4 million in the next year.

(ii) Useful lives of vessels and vessel component costs

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

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

4 Critical Accounting Estimates and Judgements (Continued)

(ii) Useful lives of vessels and vessel component costs (continued)

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

With all other variables held constant, if the useful lives increase/decrease by 3 years from management estimates, the depreciation expense would decrease by US$3.9 million or increase by US$5.5 million in the next year.

(iii) Carrying amounts of vessels

The Group regularly evaluates the carrying amounts of the vessels to determine if events have occurred that would require a modification of their carrying amounts. The valuation of vessels is reviewed based on events and changes in circumstances that would indicate that the carrying amount of the vessels might not be recovered. In assessing the recoverability of the vessels, the Group reviews certain indicators of potential impairment such as reported sale and purchase prices, market demand and general market conditions. Market valuations from leading, independent and internationally recognised shipbroking companies are obtained as part of the review for potential impairment indicators. If an indication of impairment is identified, the need for recognising an impairment loss is assessed by comparing the carrying amount of the vessels to the higher of the fair value less cost to sell and the value in use.

The value in use calculations require complex assumptions and estimates on the projections of cashflows from the continuous use of the vessels, such as estimation of future earnings from the vessels and discount rates. All of these items have been historically volatile and may impact the results of the impairment assessment.

(iv) Income taxes

The Group is subject to income taxes in certain jurisdictions. There are transactions entered into where the ultimate tax determination and tax classification may be uncertain. Significant judgement is required in determining the provision for income taxes. The current provision for income tax of US$3,553,000 represents management's estimates of the most likely amount of tax expected to be paid to the taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income tax in the period in which such determination is made.

(v) Classification of leases

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

Management assesses the classification of leases by taking into account the market conditions at the inception of the lease, the period of the lease and the probability of exercising purchase options, if any, attached to the lease. For those leases that would transfer ownership of the assets to the Group at the end of the lease term, or the purchase options, if any, attached to the arrangements are sufficiently attractive as to make it reasonably certain that they would be exercised, they are being treated as finance leases. On the contrary, for those leases that would not transfer ownership of the assets to the Group at the end of the lease term, and that it is not reasonably certain that the purchase options, if any, attached to the arrangements would be exercised, they are being treated as operating leases.

4 Critical Accounting Estimates and Judgements (Continued)

(vi) Provision for onerous contracts

A provision for onerous contracts is recognised where the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them. The Group estimates the provision for its non-cancellable operating chartered in contracts in relation to the Group's chartered in vessels on a fleet basis for each type of vessel by calculating the difference between the total charter revenue and freight expected to be earned and the total value of future charter payments the Group is obligated to make for the remaining term of the chartered in contracts.

The expected charter revenue and freight is derived from the aggregate of (a) the amount of revenue cover provided by existing contracts of affreightment, and (b) management estimates on the uncovered period by reference to current physical market rates, current trades of forward freight agreements and other relevant market information at the reporting date.

With all other variables held constant, if the expected freight rates for the uncovered chartered in contracts increase/decrease by 15% from management estimates over the next 3 years, and 5% for the relevant provisioning periods thereafter, the provision for onerous contracts would decrease/increase by US$17.7 million in the next year.

5 Revenue and Segment Information

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

	2008	2007
	US$'000	*US$'000*
Revenue		
Freight and charter-hire	**1,670,563**	1,167,388
Maritime management services	**20,385**	9,904
	1,690,948	1,177,292
Bunkers, port disbursements and other charges	**(463,909)**	(221,518)
Charter-hire expenses (Note a)	**(308,313)**	(222,292)
Amounts payable to other pool members (Note b)	**(9,309)**	(33,009)
	(781,531)	(476,819)
Time charter equivalent earnings	**909,417**	700,473

(a) Charter-hire expenses were for vessels directly short term chartered by the IHC and IHX pools.

(b) Amounts payable to other pool members represented contingent lease payments in relation to freight and charter-hire, net of bunkers, port disbursements and other charges of US$7.8 million (2007: US$25.2 million) and were calculated based on the number of pool points attributable to the vessels participating in the pools owned by the other pool members.

Primary reporting format – business segments

The Group's business is dominated by the provision of dry bulk shipping services, accordingly business segment information is not presented.

Secondary reporting format – geographical segments

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

6 Property, Plant and Equipment

	Group						
	Vessels and vessel component costs US$'000	Vessels under construction US$'000	Buildings US$'000	Leasehold improve-ments US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost							
At 1 January 2008	718,144	120,874	1,171	2,129	2,318	419	845,055
Additions	38,104	278,653	2,424	666	1,943	204	321,994
Acquisition of subsidiaries/ businesses (Note 34)	15,775	–	–	15	222	94	16,106
Write off	(2,047)	–	–	–	–	–	(2,047)
Disposals	(181,477)	–	–	(199)	(503)	–	(182,179)
Disposal of subsidiaries	–	–	–	(236)	(471)	(142)	(849)
Exchange differences	(6,625)	(6,227)	–	(28)	(321)	-	(13,201)
Reclassification	198,638	(198,638)	–	–	–	–	–
Transfer to assets held for sale (Note 18)	(80,495)	(14,108)	–	–	–	–	(94,603)
At 31 December 2008	700,017	180,554	3,595	2,347	3,188	575	890,276
Accumulated depreciation and impairment							
At 1 January 2008	86,171	–	19	1,621	1,287	92	89,190
Charge for the year	36,108	–	33	310	836	165	37,452
Write off	(2,047)	–	–	–	–	–	(2,047)
Disposals	(17,806)	–	–	(190)	(461)	–	(18,457)
Disposal of subsidiaries	–	–	–	(24)	(273)	(113)	(410)
Exchange differences	(755)	–	–	(2)	(60)	–	(817)
Impairment charge (Note)	16,097	3,358	–	–	–	–	19,455
Transfer to assets held for sale (Note 18)	(25,354)	(3,358)	–	–	–	–	(28,712)
At 31 December 2008	92,414	–	52	1,715	1,329	144	95,654
Net book value							
At 31 December 2008	607,603	180,554	3,543	632	1,859	431	794,622

Note: The impairment charge was in relation to certain vessels and vessel component costs and vessels under construction which were subsequently transferred to assets held for sale (Note 18). The charge was recognised in "other expenses".

6 Property, Plant and Equipment (Continued)

	Group						
	Vessels and vessel component costs US$'000	Vessels under construction US$'000	Buildings US$'000	Leasehold improve-ments US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost							
At 1 January 2007	758,481	55,212	489	1,679	1,833	115	817,809
Additions	54,313	203,151	682	352	571	304	259,373
Acquisition of subsidiaries	21,066	–	–	66	84	–	21,216
Write off	(2,977)	–	–	–	–	–	(2,977)
Disposals	(250,228)	–	–	(31)	(107)	–	(250,366)
Reclassification	137,489	(137,489)	–	63	(63)	–	–
At 31 December 2007	718,144	120,874	1,171	2,129	2,318	419	845,055
Accumulated depreciation							
At 1 January 2007	74,942	–	9	985	835	24	76,795
Charge for the year	36,040	–	10	630	566	68	37,314
Write off	(2,977)	–	–	–	–	–	(2,977)
Disposals	(21,834)	–	–	(19)	(89)	–	(21,942)
Reclassification	–	–	–	25	(25)	–	–
At 31 December 2007	86,171	–	19	1,621	1,287	92	89,190
Net book value							
At 31 December 2007	631,973	120,874	1,152	508	1,031	327	755,865

As at 31 December 2008, the aggregate cost and accumulated depreciation of the vessel component costs amounted to US$15,538,000 (2007: US$11,664,000) and US$5,256,000 (2007: US$5,356,000) respectively and were included in the vessels and vessel component costs.

As at 31 December 2008, the aggregate cost and accumulated depreciation of the vessels and vessel component costs held by the Group under finance leases amounted to US$222,065,000 (2007: US$307,497,000) and US$32,495,000 (2007: US$45,385,000) respectively.

As at 31 December 2008, certain owned vessels of net book value of US$391,419,000 (2007: US$116,113,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 20(b)(i)).

7 Land Use Rights

The Group's interest in land use rights represents prepaid operating lease payments in the PRC with lease periods between 10 to 50 years.

	Group	
	2008	2007
	US$'000	*US$'000*
At 1 January	**419**	427
Addition	**2,648**	–
Amortisation charge	**(32)**	(8)
At 31 December	**3,035**	419

8 Goodwill

	Group	
	2008	2007
	US$'000	*US$'000*
At 1 January	**36,426**	25,256
Acquisition of subsidiaries	**–**	11,161
Adjustment for contingent considerations paid	**187**	–
Impairment charge	**(8,904)**	–
Exchange differences	**(2,453)**	9
At 31 December	**25,256**	36,426

Goodwill is allocated to the Group's cash generating units ("CGU") identified according to the operation which the goodwill relates to. A summary of the goodwill allocation to operating units is presented below.

	Group	
	2008	2007
	US$'000	*US$'000*
Handysize and Handymax vessels	**25,256**	25,256
Towage	**–**	11,170
	25,256	36,426

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.6.

The recoverable amount of the cash-generating unit, to which the goodwill relates, has been determined based on a value-in-use calculation over its useful life. The calculation is based on a one-year budget and a further two-years outlook. Key assumptions were based on past performance and management's expectations on market development. Cash flows beyond the three years period are extrapolated assuming no growth and no material change in the existing scope of business, business environment and market conditions. The discount rates applied to the cash flow projections are 9.1% for Handysize and Handymax vessels and 4.7% for Towage and they reflect specific risks relating to the relevant operating units.

8 Goodwill (Continued)

Based on the assessment performed, in the opinion of the Directors, no impairment provision against the carrying value of goodwill for Handysize and Handymax vessels was considered necessary whereas the goodwill for Towage adjusted for exchange differences was impaired in full by US$8.9 million which was recognised in the income statement as "other expenses".

9 Subsidiaries

	Company	
	2008	2007
	US$'000	*US$'000*
Non-current assets		
Unlisted investments, at cost	**223,931**	223,931
Current assets		
Amounts due from subsidiaries	**1,197,190**	493,440
Current liabilities		
Amount due to a subsidiary	**(331,749)**	(384,382)

The amounts due from and to subsidiaries are unsecured, non-interest bearing and have no fixed repayment terms.

Details of principal subsidiaries of the Group as at 31 December 2008 are set out in Note 37.

10 Interests in Jointly Controlled Entities

	Group	
	2008	2007
	US$'000	*US$'000*
Share of net assets	**42,751**	17,725
Goodwill	**7,233**	–
Loan to a jointly controlled entity	**822**	1,818
	50,806	19,543

The loan to a jointly controlled entity is unsecured, non-interest bearing, has no fixed repayment terms and the Group does not intend to request for repayment within twelve months.

10 Interests in Jointly Controlled Entities (Continued)

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

	Group	
	2008	2007
	US$'000	*US$'000*
Assets		
Non-current assets	**69,697**	25,985
Current assets	**31,471**	21,591
	101,168	47,576
Liabilities		
Long term liabilities	**(16,744)**	(17,220)
Current liabilities	**(41,673)**	(12,631)
	(58,417)	(29,851)
Net assets	**42,751**	17,725
Revenue	**70,074**	26,198
Expenses	**(66,506)**	(17,914)
Share of profits less losses	**3,568**	8,284
Proportionate commitments in jointly controlled entities	**3,794**	26,694

There are no contingent liabilities relating to the Group's interests in jointly controlled entities, and there are no contingent liabilities of the jointly controlled entities themselves.

10 Interests in Jointly Controlled Entities (Continued)

Details of the principal jointly controlled entities of the Group at 31 December 2008 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
China Line Shipping Limited 中外船務有限公司	Hong Kong/ International	2 shares of HK$1 each	63.5%/50%/63.5%	Vessel owning and chartering
Fujairah Bulk Shipping L.L.C.	United Arab Emirates	5,500 shares of AED1,000 each	50%/50%/50%	Aggregate trading and provision of material supply and marine transportation services
Longtan Tianyu Terminal Co., Ltd. [1] 南京港龍潭天宇碼頭有限公司	PRC	RMB272,727,273 (registered capital)	45%/45%/45%	Terminal operation
Meridian Marine Management Limited	England and Wales	500 Class 'A' shares of GBP1 each 500 Class 'B' shares of GBP1 each 1 Class 'C' share of GBP1	50%/50%/50%	Provision of ship management services
Tai Hua Ship Management (Shanghai) Limited [1] 太華船舶管理(上海)有限公司	PRC	US$200,000 (registered capital)	50%/50%/50%	Provision of ship management services

[1] These jointly controlled entities are sino-foreign cooperative joint ventures established in the PRC.

All jointly controlled entities are held indirectly by the Company.

11 Investments in Associates

	Group	
	2008 **US$'000**	2007 US$'000
Share of net assets	**1,673**	–
Loan to an associate	**1,191**	–
	2,864	–

The loan to an associate is unsecured, non-interest bearing, has no fixed repayment terms and the Group does not intend to request for repayment within twelve months.

The Group invested in certain associates of US$5.9 million resulting in a goodwill of US$3.6 million. Based on the estimates of future results and market conditions, the Directors considered that the goodwill of associates was fully impaired. The charge was recognised in "other expenses".

11 Investments in Associates (Continued)

An analysis of the Group's effective share of assets, liabilities, revenue and expenses of the associates is set out below:

	Group	
	2008	2007
	US$'000	*US$'000*
Assets		
Non-current assets	**2,818**	–
Current assets	**214**	–
	3,032	–
Liabilities		
Long term liabilities	**(8)**	–
Current liabilities	**(1,351)**	–
	(1,359)	–
Net assets	**1,673**	–
Revenue	**543**	–
Expenses	**(830)**	–
Share of losses	**(287)**	–

Details of the principal associate of the Group at 31 December 2008 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
Muchalat Industries Limited	Province of British Columbia, Canada	120 Class A common shares without par value	$33^1/_3$%/$33^1/_3$%/$33^1/_3$%	Terminal operation

12 Available-for-sale Financial Assets

	Group	
	2008	2007
	US$'000	*US$'000*
Listed equity securities, at fair value (Note a)	**36,782**	–
Unlisted equity securities, at fair value (Note b)	**6,672**	–
	43,454	–

12 Available-for-sale Financial Assets (Continued)

(a) On 31 January 2008, the Group invested in unlisted zero coupon convertible bonds issued by Green Dragon Gas Limited, a company listed in the London AIM market. At initial recognition, the fair value of the convertible option attached to these convertible bonds was separately recognised as a financial asset at fair value through profit or loss and the remaining balance was designated as available-for-sale financial asset.

On 2 July 2008, the Group exercised the conversion option at US$5.56 per share. After the conversion, the equity shares were recognised as available-for-sale financial assets and the convertible option was derecognised, resulting in a gain of US$9,057,000 recorded in the income statement (Note 25). Additional shares were also purchased during the year.

As at 31 December 2008, based on the price quoted on the London AIM market and current market conditions, the Directors considered that the listed equity securities were impaired and a loss of US$35,544,000 was recognised in "other expenses" (Note 24).

(b) This represents the Group's investment in an unlisted renewable energy equity fund.

13 Derivative Assets and Liabilities

	Group	
	2008	2007
	US$'000	*US$'000*
Derivative assets		
Cash flow hedges		
Forward foreign exchange contracts (Note a)	**17,596**	851
Derivative assets that do not qualify for hedge accounting		
Bunker swap contracts (Note b)	**250**	27,037
Forward freight agreements (Note c)	**61,751**	8,324
Total	**79,597**	36,212
Less: non-current portion of		
Bunker swap contracts (Note b)	**–**	(10,556)
Forward foreign exchange contracts (Note a)	**(10,915)**	(329)
	(10,915)	(10,885)
Current portion	**68,682**	25,327
Derivative liabilities		
Cash flow hedges		
Forward foreign exchange contracts (Note a)	**–**	311
Interest rate swap contract (Note (d)(i))	**4,614**	1,479
Derivative liabilities that do not qualify for hedge accounting		
Bunker swap contracts (Note b)	**33,764**	45
Forward freight agreements (Note c)	**5,307**	24,541
Interest rate swap contract (Note (d)(ii))	**8,130**	2,206
Current portion	**51,815**	28,582

13 Derivative Assets and Liabilities (Continued)

(a) Forward foreign exchange contracts

The Group had future commitments to purchase vessels in Japanese Yen ("JPY"), Euros ("EUR") and US dollars from March 2009 to September 2010. To hedge against the potential fluctuations in foreign exchange, the Group entered into forward foreign exchange contracts with terms that match the payment schedule of the construction of the vessels until delivery. These forward foreign exchange contracts qualify for hedge accounting as cash flow hedges.

At 31 December 2008, the Group had outstanding forward foreign exchange contracts with banks to buy approximately JPY 2.4 billion (2007: JPY 13.2 billion) and simultaneously sell US$22.5 million (2007: US$120.6 million) for the acquisition of certain vessels denominated in Japanese Yen. These contracts expire through July 2009 (2007: July 2009).

At 31 December 2008, the Group had outstanding forward foreign exchange contracts with banks to buy approximately EUR 15.1 million (2007: nil) and simultaneously sell AUD26.7 million (2007: nil) for the acquisition of certain vessels denominated in Euros. These contracts expire through February 2010 (2007: nil).

At 31 December 2008, the Group had outstanding forward foreign exchange contracts with banks to buy approximately US$133.6 million (2007: nil) and simultaneously sell EUR 88.4 million (2007: nil) for the acquisition of certain vessels denominated in United States Dollars. These contracts expire through September 2010 (2007: nil).

The fair value changes recognised in equity, and the amounts transferred to "property, plant and equipment" and "other income" were a credit of US$25.2 million, a credit of US$8.2 million and nil (2007: a credit of US$1.3 million, a charge of US$2.6 million and a charge of US$0.2 million) respectively.

(b) Bunker swap contracts

At 31 December 2008, the Group had outstanding bunker swap contracts to buy approximately 210,000 (2007: 312,000) metric tonnes of bunkers, and which expire through October 2012 (2007: November 2012). The commitments were entered into to manage the fluctuations in bunker prices in connection with the Group's long term cargo contract commitments. The net losses recognised in the income statement under "bunker, port disbursements, other charges and amounts payable to other pool members" during the year was US$48.6 million (2007: gains of US$37.3 million).

(c) Forward freight agreements

At 31 December 2008, the Group had outstanding forward freight agreements to buy approximately 315 (2007: 366) days of the Baltic Supramax Index at prices of US$12,750 to US$49,000 per day (2007: US$40,000), and which expire through December 2009 (2007: December 2008). The Group had outstanding forward freight agreements to sell approximately 3,490 (2007: 366) days of the Baltic Supramax Index at prices of US$12,000 to US$51,000 per day (2007: US$26,250), and which expire through December 2012 (2007: December 2008).

13 Derivative Assets and Liabilities (Continued)

(c) Forward freight agreements (continued)

The Group had no (2007: 457 days) outstanding forward freight agreements to buy the Baltic Handysize Index (2007: US$34,000 to US$46,375 per day, which expired through December 2008). The Group had outstanding forward freight agreements to sell 1,136 (2007: 1,189) days of the Baltic Handysize Index at prices of US$7,400 to US$27,500 per day (2007: US$31,500 to US$48,000), which expire through December 2009 (2007: December 2008). The Group enters into forward freight agreements as a method of managing its exposure to both its physical tonnage and cargo with regard to its handysize and handymax vessels.

The net gains recognised in income statement during the year was US$77.0 million (2007: losses of US$51.9 million), of which gross gains of US$132.9 million (2007: US$50.9 million) and gross losses of US$55.9 million (2007: US$102.8 million) have been presented under "other income" and "other expenses" respectively.

(d) Interest rate swap contracts

(i) The Group had bank borrowings exposed to floating rates. In order to hedge the fluctuations in interest rates related to the bank borrowings, the Group entered into an interest rate swap contract with a bank to manage against six-month floating rate LIBOR ("6-month Floating Rate"). Effective from 2 January 2007, a notional amount of approximately US$20 million with the 6-month Floating Rate swapped to a fixed rate of approximately 5.6% per annum. This agreement expires in January 2017. This interest rate swap contract qualifies for hedge accounting as a cash flow hedge. The fair value losses recognised in equity and the amount transferred to the "finance costs" were US$3.5 million and US$0.3 million (2007: US$0.7 million and US$0.04 million) respectively.

(ii) Effective from 2 January 2007, a notional amount of approximately US$40 million with the 6-month Floating Rate swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month Floating Rate remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6-month fixing period when the prevailing 6-month Floating Rate is above 6.0% and reverts back to the fixed rate should subsequently the 6-month Floating Rate drop below 6.0%. This agreement expires in January 2017. The net losses recognised in the income statement under "finance costs" during the year was US$6.4 million (2007: US$1.4 million).

The total net gains on all derivatives that do not qualify for hedge accounting (including bunker swap contracts, forward freight agreements and an interest rate swap contract) recognised in the consolidated income statement amounted to US$21.7 million (2007: losses of US$17.9 million).

14 Trade and Other Receivables

	Group 2008 US$'000	2007 US$'000
Non-current receivables		
Finance lease receivables – gross	**12,325**	14,632
Less: unearned finance lease income	**(2,808)**	(3,970)
Finance lease receivables – net (Note a)	**9,517**	10,662
Current receivables		
Finance lease receivables – gross	**2,309**	2,610
Less: unearned finance lease income	**(1,163)**	(1,304)
Finance lease receivables – net (Note a)	**1,146**	1,306
Trade receivables – gross	**29,746**	31,158
Less: provision for impairment	**(1,996)**	(511)
Trade receivables – net (Note b)	**27,750**	30,647
Other receivables (Note c)	**63,278**	32,146
Prepayments	**19,006**	21,178
Amounts due from jointly controlled entities (Note d)	**13**	8,013
Loan to a jointly controlled entity (Note d)	**40,000**	5,026
	151,193	98,316

The trade and other receivables are mainly denominated in United States Dollars.

(a) At 31 December 2008 and 2007, the Group leased out a vessel under a finance lease. Under the terms of the lease, the charterer has the obligation to purchase the vessel at the end of the lease period.

The effective interest rate on finance lease receivables was approximately 11.3% (2007: approximately 11.3%).

14 Trade and Other Receivables (Continued)

(a) (continued)

The gross receivables, unearned finance lease income and the net receivables from a finance lease as at 31 December 2008 are as follows:

	Group	
	2008	2007
	US$'000	*US$'000*
Gross receivables from finance lease		
Not later than one year	**2,309**	2,610
Later than one year but not later than two years	**2,309**	2,309
Later than two years but not later than five years	**10,016**	6,932
Later than five years	**–**	5,391
	14,634	17,242
Less: unearned future finance lease income	**(3,971)**	(5,274)
	10,663	11,968
Net receivables from finance lease		
Not later than one year	**1,146**	1,306
Later than one year but not later than two years	**1,284**	1,146
Later than two years but not later than five years	**8,233**	4,342
Later than five years	**–**	5,174
	10,663	11,968

The carrying amounts of finance lease receivables approximate their fair values.

(b) At 31 December 2008, the ageing analysis of net trade receivables, which is past due but not considered impaired, is as follows:

	Group	
	2008	2007
	US$'000	*US$'000*
Less than 30 days	**16,146**	18,280
31-60 days	**5,857**	5,858
61-90 days	**1,451**	3,694
Over 90 days	**4,296**	2,815
	27,750	30,647

14 Trade and Other Receivables (Continued)

(b) (continued)

Movements on the provision for impairment of trade receivables are as follows:

	Group	
	2008	2007
	US$'000	*US$'000*
At 1 January	**511**	309
Provision for receivable impairment	**2,186**	511
Receivable written off during the year as uncollectible	**(169)**	(109)
Unused amounts reversed	**(532)**	(200)
At 31 December	**1,996**	511

Trade receivables consisted principally of voyage-related trade receivables. It is industry practice that 95% to 100% of freight is paid upon completion of loading, with the balance paid after completion of discharge and after the finalisation of port disbursements, demurrage claims or other voyage-related charges. The Group normally will not grant any credit terms to its customers and trade receivables as at balance sheet date are all past due.

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

(c) Balance includes margin call deposits placed of US$29.5 million (2007: US$1.1 million) in relation to the Group's bunker swap contracts.

(d) Except for the loan to a jointly controlled entity of US$40,000,000 (2007: US$5,026,000) which carries interest of LIBOR plus 1.5% per annum (2007: LIBOR plus 2.0% per annum) and is repayable in any event no later than 31 March 2009, the amounts due from jointly controlled entities are unsecured, non-interest bearing and have no fixed repayment terms.

(e) As at 31 December 2008 and 2007, other than the trade receivables as disclosed in (b) above, all other classes within trade and other receivables do not contain past due or impaired assets.

15 Cash and Bank Balances

	Group		Company	
	2008	2007	**2008**	2007
	US$'000	*US$'000*	***US$'000***	*US$'000*
Cash at banks and on hand	**259,422**	83,053	**15**	20
Short term bank deposits	**764,319**	566,482	**–**	360,000
Bank balances and cash	**1,023,741**	649,535	**15**	360,020
Restricted bank deposits included in non-current assets	**(4,757)**	–	**–**	–
Restricted bank deposits included in current assets	**(44,108)**	–	**–**	–
Restricted bank balances and cash (Note)	**(48,865)**	–	**–**	–
Cash and cash equivalents	**974,876**	649,535	**15**	360,020
Effective interest rate of bank deposits	**1.19%**	4.34%	**–**	4.60%
Average maturity of bank deposits	**36 days**	12 days	**–**	14 days

Note: The balances were held as securities with banks in relation to certain guarantees.

The cash and cash equivalents are mainly denominated in United States Dollars.

16 Other Non-current Assets

	Group	
	2008	2007
	US$'000	*US$'000*
Prepayments for acquisition of vessels	**40,030**	–
Other prepayments	**16,208**	–
	56,238	–

17 Inventories

	Group	
	2008	2007
	US$'000	*US$'000*
Bunkers	**21,762**	25,324
Lubricating oil	**2,529**	1,988
	24,291	27,312

18 Assets Held for Sale

The Group entered into agreements with third parties in 2008 to dispose of two vessels and another under construction. Actions had been initiated to dispose of a further vessel prior to the year end. The transactions are expected to be completed in 2009. The carrying amounts of the four vessels and vessels under construction of US$65,891,000 (Note 6) were carried at the estimated fair value less costs to sell and reclassified from property, plant and equipment accordingly.

19 Trade and Other Payables

	Group	
	2008	2007
	US$'000	*US$'000*
Trade payables (Note a)	**16,756**	22,462
Accruals and other payables (Note b)	**107,901**	50,006
Receipts in advance	**29,901**	23,530
Amounts due to jointly controlled entities (Note c)	**133**	376
	154,691	96,374

The trade and other payables are mainly denominated in United States Dollars.

(a) At 31 December 2008, the ageing analysis of trade payables is as follows:

	Group	
	2008	2007
	US$'000	*US$'000*
Less than 30 days	**11,591**	18,367
31-60 days	**846**	1,002
61-90 days	**320**	806
Over 90 days	**3,999**	2,287
	16,756	22,462

(b) Balance includes margin call deposit receipts of US$43.3 million (2007: US$0.6 million) in relation to the Group's forward freight agreements.

(c) The amounts due to jointly controlled entities are unsecured, non-interest bearing and have no fixed terms of repayment.

20 Long Term Borrowings

	Group 2008 US$'000	2007 US$'000
Non-current		
Finance lease liabilities (Note a)	**199,386**	273,054
Secured bank loans (Note b)	**288,059**	12,524
Convertible bonds (Note c)	**301,688**	351,060
	789,133	636,638
Current		
Finance lease liabilities (Note a)	**13,963**	16,592
Secured bank loans (Note b)	**44,716**	7,035
	58,679	23,627
Total long term borrowings	**847,812**	660,265

The carrying amounts of long term borrowings approximate their fair values and are mainly denominated in United States Dollars.

(a) At 31 December 2008, the Group leased certain vessels under finance leases. Under the terms of the leases, the Group has options to purchase these vessels at any time throughout the charter periods. Lease liabilities are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

The effective interest rates on finance lease payables were for the various leases periods which range from approximately 6.6% to 7.0% (2007: approximately 6.6% to 8.2%).

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2008 are as follows:

	Group 2008 US$'000	2007 US$'000
Gross liabilities under finance leases		
Not later than one year	**28,137**	37,616
Later than one year but not later than two years	**28,114**	39,058
Later than two years but not later than five years	**84,287**	110,624
Later than five years	**152,653**	235,137
	293,191	422,435
Less: future finance charges on finance leases	**(79,842)**	(132,789)
	213,349	289,646

20 Long Term Borrowings (Continued)

(a) (continued)

	Group	
	2008	2007
	US$'000	*US$'000*
Net liabilities under finance leases		
Not later than one year	**13,963**	16,592
Later than one year but not later than two years	**14,928**	18,432
Later than two years but not later than five years	**51,312**	61,448
Later than five years	**133,146**	193,174
	213,349	289,646

(b) The bank loans as at 31 December 2008 are secured, inter alia, by the following:

(i) Mortgages over certain owned vessels of net book value totalling US$391,419,000 (2007: US$116,113,000) (Note 6);

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

(iii) Fixed and floating charges over all of the assets of certain subsidiaries of the Group's towage business.

The average effective interest rate of bank loans is 2.3% (2007: 6.0%).

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

	Group	
	2008	2007
	US$'000	*US$'000*
Within one year	**44,716**	7,035
In the second year	**33,800**	7,035
In the third to fifth year	**97,898**	5,489
After the fifth year	**156,361**	–
	332,775	19,559

20 Long Term Borrowings (Continued)

(c) Convertible bonds

On 20 December 2007, the Group issued 3.3% convertible bonds with an aggregate principal amount of US$390 million. The bonds mature on 1 February 2013 at their nominal value of US$390 million or can be converted into shares at the holder's option at the rate of HK$19.21 per share. However, until 3 November 2010, conversion can only take place if the closing price of the Company's shares is at least at a 20% premium to the HK$19.21 conversion price for five consecutive trading days, being HK$23.05 per share or above. On 1 February 2011, each bondholder will have the right to require the Group to redeem all or some of the bonds at 100% of the principal amount. The Group may redeem the bonds in whole at a redemption price equal to 100% of their principal amount on or after 1 February 2011. The values of the liability component and the equity conversion component were determined at the date of issuance of the bonds.

The fair value of the liability component, included in non-current borrowings, was calculated using the market interest rates for equivalent non-convertible bonds at the date of issuance of the bonds. The residual amount, representing the value of the equity conversion option, is included in the convertible bonds reserve (Note 23) in shareholders' equity.

The effective interest rate on the liability component of the convertible bonds is 5.7%.

During the year, bonds with nominal value of US$65.8 million were repurchased and cancelled at a consideration of US$44.5 million. Gains of US$20.2 million (Note 25) and US$1.6 million (Note 23) were recognised in the income statement and equity upon derecognition of the respective liability component and equity component. The outstanding nominal value as at 31 December 2008 was $324.2 million.

The movement of the liability component of the convertible bonds is as follows:

	Group	
	2008	2007
	US$'000	*US$'000*
At 1 January/at the issue date	**351,060**	350,467
Interest expense (Note 27)	**19,132**	593
Interest paid	**(7,915)**	–
Repurchase and cancellation	**(60,589)**	–
At 31 December	**301,688**	351,060

21 Provision for Onerous Contracts

	Group 2008 US$'000	2007 US$'000
At 1 January	**–**	–
Charge for the year	**53,932**	–
At 31 December	**53,932**	–
Analysis of provisions		
Current	**28,179**	–
Non-current	**25,753**	–
	53,932	–

Provision for onerous contracts represents provision for non-cancellable operating charter agreements in relation to the Group's chartered in vessels where the unavoidable costs of meeting the obligations under the contracts exceed the economic benefits expected to be received under them. Provision for onerous contracts is recognised based on the difference between the charter revenue and freight expected to be earned on the charter and the value of future charter payments that the Group is presently obligated to make.

22 Share Capital

	2008 Number of shares of US$0.1 each	2008 US$'000	2007 Number of shares of US$0.1 each	2007 US$'000
Authorised	**3,600,000,000**	**360,000**	3,600,000,000	360,000
Issued and fully paid				
At 1 January	**1,584,029,295**	**158,403**	1,557,851,795	155,785
Shares issued upon exercise of share options (Note a)	**2,100,000**	**210**	17,980,000	1,798
Shares purchased by trustee of the LTIS (Note b)	**(1,212,000)**	**(1,759)**	(1,760,000)	(2,033)
Shares transferred to employees upon granting of restricted share awards (Note b)	**1,262,000**	**1,764**	1,760,000	2,033
Shares issued and transferred to employees upon granting of restricted share awards (Note b)	**2,532,000**	**253**	8,247,500	825
Shares transferred back to trustee upon lapse of restricted share awards (Note b)	**(173,000)**	**(17)**	(50,000)	(5)
Shares issued upon placing of new shares (Note c)	**158,598,000**	**15,860**	–	–
At 31 December	**1,747,136,295**	**174,714**	1,584,029,295	158,403

22 Share Capital (Continued)

(a) Share options

55,500,000 share options under the Company's Long Term Incentive Scheme ("LTIS") were granted to Directors, senior management and certain employees on 14 July 2004 at an exercise price of HK$2.5 per share. They were fully vested on 14 July 2007 and expire on 14 July 2014. Movements in the number of share options outstanding during the year and their related weighted average exercise prices are as follows:

	2008 Average exercise price per share *HK$*	**2008** Number of options *'000*	2007 Average exercise price per share *HK$*	2007 Number of options *'000*
At 1 January	**2.500**	**3,278**	2.500	21,258
Exercised (Note)	**2.500**	**(2,100)**	2.500	(17,980)
At 31 December	**2.500**	**1,178**	2.500	3,278

Note: The related weighted average price of the Company's shares at the time of exercise was HK$12.18 (2007: HK$10.69) per share.

As at 31 December 2008 and 2007, all outstanding share options were exercisable.

(b) Restricted share awards

Restricted share awards under the LTIS were granted to Directors, senior management and certain employees. The LTIS under Hong Kong Financial Reporting Standards is regarded as a special purpose entity of the Company.

During the year, a total of 3,794,000 (2007: 10,007,500) restricted share awards were granted and transferred to certain employees on 20 March 2008, 1 April 2008 and 5 August 2008 and 173,000 (2007: 50,000) shares amounting to US$17,000 (2007: US$5,000) formerly transferred to certain employees lapsed. Out of the 3,794,000 (2007: 10,007,500) restricted share rewards granted, (i) 1,262,000 (2007: 1,760,000) shares were purchased by the trustee of the LTIS on the Stock Exchange at a total cost of US$1,764,000 (2007: US$2,033,000) and (ii) 2,532,000 (2007: 8,247,500) shares were issued by the Company at nominal value of US$0.10 each. The transfers of shares resulted in movements between share capital and staff benefit reserve of US$1,764,000 and US$253,000 (2007: US$2,033,000 and US$825,000) respectively. At 31 December 2008, there remained 173,814 (2007: 50,814) shares held by the trustee, amounting to US$17,400 (2007: US$5,500) as a debit to share capital.

22 Share Capital (Continued)

(b) Restricted share awards (continued)

The vesting periods of the restricted share awards are as follows:

Date of grant	Number of unvested share awards	Vesting periods
8 June 2005	1,333,332	in equal amounts on 5 April 2009 and 2010
9 March 2006	877,500	in equal amounts on 1 March 2009, 2010 and 2011
15 March 2006	180,000	in equal amounts on 1 March 2009, 2010 and 2011
20 March 2006	408,168	in equal amounts on 5 April 2009 and 2010
21 July 2006	270,000	in equal amounts on 23 August 2009, 2010 and 2011
19 September 2006	1,500,000	in equal amounts on 4 September 2009, 2010 and 2011
11 May 2007	6,390,500	3,037,000 and 3,353,500 shares on 14 July 2009 and 2010 respectively
20 March 2008	46,000	in equal amounts on 1 March 2009 and 2010
1 April 2008	231,000	in equal amounts on 1 April 2009, 2010 and 2011
5 August 2008	1,866,000	1,866,000 on 14 July 2011
5 August 2008	937,000	301,000 on each of 14 July 2009 and 2010 and 335,000 on 14 July 2011
5 August 2008	351,000	in equal amounts on 2 July 2009, 2010 and 2011
5 August 2008	99,000	in equal amounts on 24 July 2009, 2010 and 2011
	14,489,500	

Movements in the number of unvested restricted share awards during the year are as follows:

	2008	2007
	'000	*'000*
At 1 January	**16,340**	8,086
Granted	**3,794**	10,008
Vested	**(5,471)**	(1,704)
Lapsed	**(173)**	(50)
At 31 December	**14,490**	16,340

The market price of the restricted share awards on the grant date represented the fair value of those shares.

(c) On 20 May 2008, the Company issued 158,598,000 new shares, with nominal value of US$0.10 each, at a price of HK$13.52 per share representing a discount of approximately 7.0% to the closing price of HK$14.54 per share as quoted on the Stock Exchange on 8 May 2008, being the date of the placing agreement. The proceeds of the placing, net of issuing expenses of approximately US$4,168,000, amounted to US$270,952,000 (or HK$2,111,764,000) or HK$13.32 net per share. The placing was fully underwritten by Goldman Sachs (Asia) L.L.C. as the placing agent to more than six independent individual, corporate, institutional or other professional investors. The purpose of placing was to raise capital for investments in vessels and other opportunities.

23 Reserves

	Group								
	Other reserves								
	Share premium US$'000	Merger reserve US$'000	Convertible bonds reserve US$'000	Staff benefits reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Subtotal US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2008	251,382	(56,606)	33,764	66	(939)	159	227,826	480,907	708,733
Currency translation differences	-	-	-	-	-	(21,119)	(21,119)	-	(21,119)
Cash flow hedges									
– fair value gains in the year	-	-	-	-	21,760	-	21,760	-	21,760
– transferred to property, plant and equipment	-	-	-	-	(8,176)	-	(8,176)	-	(8,176)
– transferred to consolidated income statement	-	-	-	-	337	-	337	-	337
Gains on repurchase and cancellation of convertible bonds (Note 20(c))	-	-	-	-	-	-	-	1,589	1,589
Shares issued upon exercise of share options (Note 22(a))	686	-	-	(223)	-	-	463	-	463
Shares transferred upon granting and lapse of restricted share awards (Note 22(b))	-	-	-	(2,000)	-	-	(2,000)	-	(2,000)
Shares issued upon placing of new shares, net of issuing expenses (Note 22(c))	255,092	-	-	-	-	-	255,092	-	255,092
Repurchase and cancellation of convertible bonds (Note 20(c))	-	-	(5,697)	-	-	-	(5,697)	-	(5,697)
Profit attributable to shareholders	-	-	-	-	-	-	-	409,119	409,119
Shared-based compensation (Note 26)	-	-	-	6,854	-	-	6,854	-	6,854
Dividends paid (Note 30)	-	-	-	-	-	-	-	(322,967)	(322,967)
Balance at 31 December 2008	507,160	(56,606)	28,067	4,697	12,982	(20,960)	475,340	568,648	1,043,988

23 Reserves (Continued)

	Group								
	Other reserves								
	Share premium US$'000	Merger reserve US$'000	Convertible bonds reserve US$'000	Staff benefits reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Subtotal US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2007	245,517	(56,606)	–	(436)	(4,333)	18	184,160	145,048	329,208
Currency translation differences	–	–	–	–	–	141	141	–	141
Cash flow hedges									
– fair value gains in the year	–	–	–	–	522	–	522	–	522
– transferred to property, plant and equipment	–	–	–	–	2,603	–	2,603	–	2,603
– transferred to consolidated income statement	–	–	–	–	269	–	269	–	269
Shares issued upon exercise of share options (Note 22(a))	5,865	–	–	(1,910)	–	–	3,955	–	3,955
Shares transferred upon granting and lapse of restricted share awards (Note 22(b))	–	–	–	(2,853)	–	–	(2,853)	–	(2,853)
Equity component of convertible bonds issued	–	–	33,764	–	–	–	33,764	–	33,764
Profit attributable to shareholders	–	–	–	–	–	–	–	472,125	472,125
Shared-based compensation (Note 26)	–	–	–	5,265	–	–	5,265	–	5,265
Dividends paid (Note 30)	–	–	–	–	–	–	–	(136,266)	(136,266)
Balance at 31 December 2007	251,382	(56,606)	33,764	66	(939)	159	227,826	480,907	708,733
Representing:									
2007 Proposed final dividend								152,825	
Others								328,082	
Retained profits as at 31 December 2007								480,907	

23 Reserves (Continued)

	Company				
	Other reserves				
	Share Premium	**Staff benefits reserve**	**Subtotal**	**Retained profits**	**Total**
	US$'000	***US$'000***	***US$'000***	***US$'000***	***US$'000***
Balance at 1 January 2008	**251,382**	**66**	**251,448**	**283,546**	**534,994**
Shares issued upon exercise of share options (Note 22(a))	**686**	**(223)**	**463**	**–**	**463**
Shares transferred upon granting and lapse of restricted share awards (Note 22(b))	**–**	**(2,000)**	**(2,000)**	**–**	**(2,000)**
Shares issued upon placing of new shares, net of issuing expenses (Note 22(c))	**255,092**	**–**	**255,092**	**–**	**255,092**
Share-based compensation (Note 26)	**–**	**6,854**	**6,854**	**–**	**6,854**
Profit attributable to shareholders (Note 29)	**–**	**–**	**–**	**442,279**	**442,279**
Dividends paid (Note 30)	**–**	**–**	**–**	**(322,967)**	**(322,967)**
Balance at 31 December 2008	**507,160**	**4,697**	**511,857**	**402,858**	**914,715**

As at 31 December 2008, distributable reserves of the Company amounted to US$402.9 million (2007: US$283.5 million).

	Company				
	Other reserves				
	Share Premium	**Staff benefits reserve**	**Subtotal**	**Retained profits**	**Total**
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*
Balance at 1 January 2007	245,517	(436)	245,081	84,945	330,026
Shares issued upon exercise of share options (Note 22(a))	5,865	(1,910)	3,955	–	3,955
Shares transferred upon granting and lapse of restricted share awards (Note 22(b))	–	(2,853)	(2,853)	–	(2,853)
Share-based compensation (Note 26)	–	5,265	5,265	–	5,265
Profit attributable to shareholders (Note 29)	–	–	–	334,867	334,867
Dividends paid (Note 30)	–	–	–	(136,266)	(136,266)
Balance at 31 December 2007	251,382	66	251,448	283,546	534,994
Representing:					
2007 Proposed final dividend				152,825	
Others				130,721	
Retained profits as at 31 December 2007				283,546	

24 Expenses by Nature

	2008 US$'000	2007 US$'000
Amortisation of land use rights	**32**	8
Amounts payable to other pool members (Note 5)	**9,309**	33,009
Auditors' remuneration		
– audit	**1,155**	1,059
– non-audit	**179**	708
Bunkers consumed	**239,625**	126,502
Depreciation		
– owned vessels	**23,723**	21,395
– leased vessels	**12,385**	14,645
– other owned property, plant and equipment	**1,344**	1,274
Employee benefit expenses including Directors' emoluments (Note 26)	**51,726**	35,994
Losses on disposal of subsidiaries	**1,744**	–
Losses on financial assets at fair value through profit and loss	**4,369**	–
Losses on forward freight agreements	**55,888**	102,800
Lubricating oil consumed	**3,801**	4,219
Net exchange losses	**3,480**	132
Net losses/(gains) on bunker swap contracts	**48,553**	(37,285)
One-off charter termination payment	**41,829**	–
Operating lease expenses		
– vessels	**696,807**	424,467
– land and buildings	**3,425**	1,718
Port disbursements and other voyage costs	**174,072**	132,024
Provision for impairment losses		
– Property, plant and equipment	**19,455**	–
– Goodwill	**8,904**	–
– Investments in associates	**3,574**	–
– Available-for-sale financial assets	**35,544**	–
– Trade receivables	**2,186**	511
Provision for onerous contracts	**53,932**	–
Vessel and other operating costs	**76,394**	50,616
Total of (i) "bunkers, port disbursements, other charges and amounts payable to other pool members", (ii) "direct costs", (iii) "general and administrative expenses" and (iv) "other expenses"	**1,573,435**	913,796

24 Expenses by Nature (Continued)

Direct costs as included above:

	2008 US$'000	2007 US$'000
Charter-hire expenses for vessels	**388,494**	202,175
Vessel operating costs (Note)	**62,819**	45,079
Depreciation of vessels	**36,108**	36,040
Shore based overheads	**54,043**	30,404
Cost of consulting services	**3,136**	2,253
	544,600	315,951

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

25 Other Income

	2008 US$'000	2007 US$'000
Income		
Dividend income on financial assets at fair value through profit or loss	**398**	1,230
Other income	**1,145**	1,047
Gains		
Fair value gains on forward freight agreements	**132,881**	50,935
Fair value gains on financial assets at fair value through profit or loss	**–**	4,369
Gains on disposals and derecognition of financial assets at fair value through profit or loss	**9,328**	24,070
Gains on repurchase and cancellation of convertible bonds	**20,169**	–
	163,921	81,651

26 Employee Benefit Expenses (Including Directors' Emoluments)

	2008 **US$'000**	2007 US$'000
Directors' fees	**377**	282
Salaries and bonus	**42,471**	28,901
Retirement benefit costs	**2,024**	1,546
Share-based compensation	**6,854**	5,265
	51,726	35,994

(a) Directors' emoluments

The Company's Board of Directors is currently composed of five (2007: five) executive Directors and five (2007: six) non-executive Directors.

The aggregate amount of emoluments payable to the Directors of the Company during the year was US$7.3 million (2007: US$6.9 million). Details of Directors' remuneration are disclosed in sections 2, 3 and 4 of the Remuneration Report on pages 69 to 70.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2007: five) Directors whose emoluments are reflected in note (a) above and amounted to US$6.1 million (2007: US$6.7 million). The emoluments payable to the remaining one individual (2007: nil) were US$0.9 million (2007: nil). Further details are disclosed in section 6 of the Remuneration Report on page 71.

27 Finance Income and Costs

	2008 **US$'000**	2007 US$'000
Finance income		
Bank interest income	**(21,280)**	(4,835)
Interest income on available-for-sale financial assets	**(3,440)**	–
Finance lease interest income	**(1,304)**	(1,421)
	(26,024)	(6,256)
Finance costs		
Interest on bank loans not wholly repayable within five years	**4,407**	1,913
Interest on finance leases not wholly repayable within five years	**17,014**	19,907
Interest on convertible bonds wholly repayable within five years	**19,132**	593
Other finance charges	**862**	316
Net losses on interest rate swap contracts	**6,734**	1,374
	48,149	24,103
Finance costs, net	**22,125**	17,847

28 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2007: 17.5%) on the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged/(credited) to the consolidated income statement represents:

	2008 **US$'000**	2007 US$'000
Current taxation		
Hong Kong profits tax	**1,943**	1,131
Overseas tax	**1,893**	495
Overprovision of prior year	**(218)**	(737)
	3,618	889

Below is the reconciliation between taxation in the consolidated income statement and the aggregate tax at the domestic rates applicable to profits in the respective territories concerned.

	2008 **US$'000**	2007 US$'000
Profit before taxation	**412,408**	473,021
Less: share of profits less losses of jointly controlled entities	**(3,568)**	(8,284)
Add: share of losses of associates	**287**	–
	409,127	464,737
Aggregate tax at the rates of taxation prevailing in the countries in which the Group operates	**68,905**	81,815
Income not subject to taxation	**(188,919)**	(139,532)
Expenses not deductible for taxation purposes	**123,850**	59,343
Overprovision of prior year	**(218)**	(737)
Taxation charge	**3,618**	889

The weighted average applicable tax rate was 16.8% (2007: 17.6%).

There was no material unprovided deferred taxation at 31 December 2008 (2007: nil).

29 Profit Attributable to Shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of US$442,279,000 (2007: US$334,867,000).

30 Dividends

	2008 **US$'000**	2007 US$'000
Interim dividend of HK 76 cents or US 9.7 cents per share (2007: HK 45 cents or US 5.8 cents per share)	**170,142**	91,302
Proposed final dividend per share: nil (2007: HK 75 cents or US 9.6 cents per share)	**–**	152,825
	170,142	244,127

The dividends paid in 2008 and 2007 were US$322,967,000 (HK 151 cents or US 19.3 cents per share) and US$136,266,000 (HK 67.5 cents or US 8.7 cents per share) respectively. No final dividend was proposed in respect of the year ended 31 December 2008.

31 Earnings Per Share

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's LTIS (Note 22(b)).

	2008	2007
Profit attributable to shareholders (US$'000)	**409,119**	472,125
Weighted average number of ordinary shares in issue ('000)	**1,684,034**	1,571,375
Basic earnings per share	**US 24.29 cents**	US 30.05 cents
Equivalent to	**HK 189.17 cents**	HK 234.21 cents

31 Earnings Per Share (Continued)

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares after adjusting for the number of potential dilutive ordinary shares granted under the Company's LTIS but excluding the shares held by the trustee of the Company's LTIS (Note 22(b)).

	2008	2007
Profit attributable to shareholders (US$'000)	**409,119**	472,125
Weighted average number of ordinary shares in issue ('000)	**1,684,034**	1,571,375
Adjustments for share options ('000)	**867**	2,496
Weighted average number of ordinary shares for diluted earnings per share ('000)	**1,684,901**	1,573,871
Diluted earnings per share	**US 24.28 cents**	US 30.00 cents
Equivalent to	**HK 189.07 cents**	HK 233.84 cents

32 Notes to The Consolidated Cash Flow Statement

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

	Group	
	2008 ***US$'000***	2007 *US$'000*
Profit before taxation	**412,408**	473,021
Adjustment for:		
Finance costs, net	**22,125**	17,847
Share of profits less losses of jointly controlled entities	**(3,568)**	(8,284)
Share of losses of associates	**287**	–
Depreciation	**37,452**	37,314
Amortisation of land use rights	**32**	8
Provision for impairment losses		
– Property, plant and equipment	**19,455**	–
– Goodwill	**8,904**	–
– Investments in associates	**3,574**	–
– Available-for-sale financial assets	**35,544**	–
– Trade receivables	**2,186**	–
Gains on disposal of jointly controlled entities	**(1,150)**	–
Share-based compensation	**6,854**	5,265
Gains on disposal of property, plant and equipment	**(149,818)**	(137,437)
Net unrealised gains on derivative instruments not qualified as hedges, excluding interest rate swap contracts	**(12,773)**	(16,197)
Net unrealised gains on financial assets at fair value through profit or loss	**–**	(4,369)

32 Notes to The Consolidated Cash Flow Statement (Continued)

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

	Group	
	2008	2007
	US$'000	*US$'000*
Dividend income from financial assets at fair value through profit or loss	**(398)**	(1,230)
Gains on disposal and derecognition of financial assets at fair value through profit or loss	**(9,328)**	–
Losses on financial assets at fair value through profit or loss	**4,369**	–
Provision for onerous contracts	**53,932**	–
Losses on disposal of subsidiaries	**1,744**	–
Gains on repurchase and cancellation of convertible bonds	**(20,169)**	–
Exchange differences	**(7,722)**	145
Profit before taxation before working capital changes	**403,940**	366,083
Decrease/(increase) in inventories	**3,287**	(11,669)
Decrease/(increase) in financial assets at fair value through profit or loss	**15,948**	(15,677)
Increase in trade and other receivables	**(21,162)**	(45,178)
Increase in trade and other payables	**58,683**	21,458
Cash generated from operations	**460,696**	315,017

(b) In the consolidated cash flow statement, proceeds from sale of property, plant and equipment comprise:

	2008	2007
	US$'000	*US$'000*
Net book amount of property, plant and equipment (Note 6)	**163,722**	228,424
Gains on disposal of property, plant and equipment	**149,818**	137,437
	313,540	365,861

33 Commitments

(a) Capital commitments

	Group	
	2008	2007
	US$'000	*US$'000*
Contracted but not provided for in relation to		
– vessel acquisitions and shipbuilding contracts	**429,318**	274,226
– investment in a jointly controlled entity	**6,250**	17,140
– investment in an unlisted equity fund	**10,203**	–
	445,771	291,366

Capital commitments that fall due not later than one year amounted to US$241.4 million (2007: US$198.3 million).

33 Commitments (Continued)

(b) Commitments under operating leases

(i) The Group as the lessee

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

	Land and buildings ***US$'000***	**Vessels** ***US$'000***	**Total** ***US$'000***
At 31 December 2008			
Not later than one year	**2,843**	**229,417**	**232,260**
Later than one year but not later than five years	**4,041**	**253,257**	**257,298**
Later than five years	**97**	**110,687**	**110,784**
	6,981	**593,361**	**600,342**

	Land and buildings *US$'000*	Vessels *US$'000*	Total *US$'000*
At 31 December 2007			
Not later than one year	2,338	341,453	343,791
Later than one year but not later than five years	4,014	315,098	319,112
Later than five years	63	21,927	21,990
	6,415	678,478	684,893

Contingent lease payments made, including payments to other pool members of the IHC and IHX pools, amounted to US$44,400,000 (2007: US$44,321,000).

The leases have varying terms ranging from less than 1 year to 10 years. Certain of these leases have escalation clauses, renewal rights and purchase options.

(ii) The Group as the lessor

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

	2008 ***US$'000***	2007 *US$'000*
Not later than one year	**44,336**	42,730
Later than one year but not later than five years	**100,308**	21,054
Later than five years	**124,332**	–
	268,976	63,784

The Group's operating leases are for terms ranging from less than 1 year to 15 years.

34 Business Combination

(a) On 18 March 2008, the Group acquired 90.1% of the share capital of PB Maritime Services Holdings Limited and its subsidiaries collectively ("PBMS Group") and 100% of the share capital of Pacific Basin Holdings Limited and its subsidiaries and jointly controlled entities (collectively "PBHL Group") with the effective date of acquisition on 1 January 2008. PBMS Group is principally engaged in technical ship management and contributed revenue of US$4,639,000 and net profit of US$113,000 to the Group for the year since the date of acquisition. PBHL Group is principally engaged in commercial ship management and contributed revenue of US$1,329,000 and net profit of US$278,000 to the Group for the year since the date of acquisition.

Details of net assets acquired and goodwill are as follows:

	PBMS Group *US$'000*	PBHL Group *US$'000*
Cash paid	**238**	**639**
Consideration payable	**201**	**–**
Total purchase consideration	**439**	**639**
Less: fair values of net identified assets acquired	**(439)**	**(639)**
Goodwill	**–**	**–**

The assets and liabilities as of 1 January 2008 arising from the acquisition are as follows:

	PBMS Group *US$'000*	PBHL Group *US$'000*
Cash and cash equivalents	**432**	**256**
Property, plant and equipment	**180**	**122**
Interests in jointly controlled entities	**–**	**382**
Trade and other receivables	**414**	**193**
Trade and other payables	**(462)**	**(314)**
Taxation payable	**(72)**	**–**
Total net assets	**492**	**639**
Minority interests	**(53)**	**–**
Net assets acquired	**439**	**639**

The fair values of all assets and liabilities acquired as of 1 January 2008 approximate their carrying amounts.

Subsequently on 19 December 2008, the Group further acquired 9.9% of PBMS Group at a consideration of US$0.4 million.

Effective from 31 December 2008, the Group disposed of all its equity interests in the PBHL Group and certain subsidiaries of the PBMS Group with a consideration of US$0.3 million and resulting in a loss of US$1.7 million.

34 Business Combination (Continued)

(b) On 8 August 2008, the Group acquired certain assets and liabilities of Sea-Tow Limited that together form a business through its wholly owned subsidiary, PB Sea-Tow Holdings (BVI) Limited and its subsidiaries (collectively "Sea-Tow Group") which is principally engaged in tug owning and operation and contributed revenue of US$8,462,000 and net profit of US$1,009,000 to the Group for period since the date of acquisition.

Details of net assets acquired and goodwill are as follows:

	US$'000
Purchase consideration:	
Cash paid	**15,718**
Direct cost relating to the acquisition	**97**
Total purchase consideration	**15,815**
Less: fair value of net identified assets acquired	**(15,815)**
Goodwill	**–**

The assets and liabilities as of 8 August 2008 arising from the acquisition are as follows:

	US$'000
Inventories	**266**
Property, plant and equipment	**15,804**
Trade and other receivables	**68**
Trade and other payables	**(323)**
Net assets acquired	**15,815**

The fair values of all assets and liabilities as of 8 August 2008 approximate their carrying amounts.

(c) Analysis of net cash outflow on acquisition of subsidiaries and businesses for the year:

	US$'000
Total purchase consideration settled in cash	**17,054**
Cash and cash equivalents in subsidiaries acquired	**(688)**
Net cash outflow on acquisition of subsidiaries and businesses	**16,366**

35 Significant Related Party Transactions

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

(a) Purchases of services

	2008 US$'000	2007 US$'000
Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") (Note i)	**604**	368
Amounts payable to China Line Shipping Limited (Note ii)	**10,152**	8,159
Amounts payable to Fujairah Bulk Shipping L.L.C. ("FBSL") (Note iii)	**2,784**	7,725

Note:

(i) The Group entered into certain insurance contracts through Sun Hing, a related company in which approximately 36% of its shareholding was held indirectly by Dr. Lee Kwok Yin, Simon, a Director and a shareholder of the Company.

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

(iii) The Group paid to FBSL, a jointly controlled entity, charter-hire in relation to the leasing of a vessel.

(b) Sales of services

	2008 US$'000	2007 US$'000
Charter-hire income received from FBSL (Note (i))	**13,623**	6,763
Management fee income received from FBSL (Note (ii))	**2,403**	–

Note: (i) The Group leased out certain vessels to FBSL, a jointly controlled entity.

(ii) The Group provided certain management and other commercial services to FBSL, a jointly controlled entity.

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

	2008 US$'000	2007 US$'000
Directors' fee	**377**	282
Salaries and bonus	**8,242**	6,728
Retirement benefit costs	**218**	88
Share-based compensation	**2,742**	2,206
	11,579	9,304

36 Financial guarantees

The Company has given corporate guarantees of approximately US$266.4 million (2007: nil) for certain subsidiaries in respect of loan facilities granted to the subsidiaries.

37 Principal Subsidiaries

At 31 December 2008, the Company has direct and indirect interest in the following principal subsidiaries:

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held		Principal activities
			2008 %	2007 %	
Shares held directly:					
PB Management Holding Limited	The British Virgin Islands	12,313 shares of US$1 each	**100**	100	Investment holding
PB Vessels Holding Limited	The British Virgin Islands	101,118,775 shares of US$1 each	**100**	100	Investment holding
PB Issuer Limited	The British Virgin Islands	1 share of US$1	**100**	100	Bond issuer
Shares held indirectly:					
AMS Salvage and Towage Pty. Ltd.	Australia/international	100 shares	**90.1**	90.1	Tug owning
Asia Pacific Capital Developments Limited 亞太資本發展有限公司	Hong Kong	1 share of HK$1	**100**	–	Property holding
Asia Pacific Fortune (HK) Limited 亞太財富(香港)有限公司	Hong Kong	1 share of HK$1	**100**	100	Investment holding of PRC terminal
Bernard (BVI) Limited	The British Virgin Islands/ international	5,100,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Bright Cove Limited	Hong Kong/international	1 share of HK$1 each	**100**	100	Vessel owning and chartering
Bulk Ventures Limited	The British Virgin Islands	1 share of US$1 each	**100**	100	Investment holding
Caterina (BVI) Limited	The British Virgin Islands/ international	2,500,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Champion Bay Limited	The British Virgin Islands/ international	1 share of US$1	**100**	100	Vessel owning and chartering
Delphic Shipping (BVI) Limited	The British Virgin Islands/ international	100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	Hong Kong/international	1 share of HK$1	**100**	100	Vessel owning and chartering
Elizabay Limited	The British Virgin Islands/ international	1 share of US$1	**100**	–	Vessel owning and chartering
Elizabeth Castle Limited	The British Virgin Islands/ international	1 share of US$1	**100**	100	Vessel chartering
Everclear Shipping (BVI) Limited	The British Virgin Islands/ international	3,100,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Foreview (HK) Limited	Hong Kong/international	10 Class 'A' shares of US$1 each, 2,500,000 Class 'B' shares of US$1 each	**100**	100	Vessel owning and chartering

37 Principal Subsidiaries (Continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2008 %	Interest held 2007 %	Principal activities
Francesca Shipping (BVI) Limited	The British Virgin Islands/ international	3,000,100 shares of US$0.01 each	100	100	Vessel owning
Future Sea Limited	Hong Kong/international	1 share of HK$1	100	100	Vessel owning and chartering
Good Shape Limited	Hong Kong/international	1 share of HK$1	100	100	Vessel owning and chartering
Great Prosperity Business Management Consulting (Wuhan) Limited [1 & 2] 漢隆企業管理諮詢(武漢)有限公司	PRC	US$2,900,000 (registered capital)	100	–	Property holding
Helen Shipping (BVI) Limited	The British Virgin Islands/ international	100 shares of US$0.01 each	100	100	Vessel owning and chartering
Illuminous Limited	The British Virgin Islands/ international	1 share of US$1	100	–	Vessel owning
Investors Choice Limited	The British Virgin Islands/ international	10 Class 'A' shares of US$1 each, 1,060 Class 'B' shares of US$5,000 each	100	100	Vessel owning
Judith Shipping (BVI) Limited	The British Virgin Islands/ international	3,800,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Kumberstar Limited	The British Virgin Islands/ international	1 share of US$1	100	–	Vessel owning
Labrador Shipping (BVI) Limited	The British Virgin Islands/ international	3,800,100 shares of US$0.01 each	100	100	Vessel owning
Lake Stevens Limited	Hong Kong/international	1 share of HK$1	100	100	Vessel owning and chartering
Mega Fame Limited	The British Virgin Islands/ international	1 share of US$1	100	100	Vessel owning
Mirs Shipping (BVI) Limited	The British Virgin Islands/ international	2,100,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Mount Adams Limited	The British Virgin Islands/ international	1 share of US$1	100	100	Vessel owning and chartering
Mount Rainier Limited	Hong Kong/international	1 share of HK$1	100	100	Vessel owning and chartering
New Majestic International Limited	The British Virgin Islands/ international	10 Class 'A' shares of US$1 each, 430 Class 'B' shares of US$9,418.605 each	100	100	Vessel owning
Newman Shipping (BVI) Limited	The British Virgin Islands/ international	2,600,100 shares of US$0.01 each	100	100	Vessel owning
Othello Shipping (BVI) Limited	The British Virgin Islands/ international	2,659,300 shares of US$0.01 each	100	100	Vessel owning

37 Principal Subsidiaries (Continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2008 %	Interest held 2007 %	Principal activities
PB Commerce Limited	The British Virgin Islands/ Hong Kong	1 share of US$1	**100**	100	Investment holding
PB Pearl Limited	Cook Islands/international	2 shares of US$1 each	**100**	–	Tugs & barge owning and chartering
PB Pride Limited	Cook Islands/international	2 shares of US$1 each	**100**	–	Tug & barge owning and chartering
PB Progress Limited	Cook Islands/international	2 shares of US$1 each	**100**	–	Tug owning and chartering
PB Sea-Tow (Australia) Pty Ltd	Australia	1 ordinary share of AUD1	**100**	–	Provision of ship management services
PB Sea-Tow (BVI) Limited	The British Virgin Islands/ international	1 share of US$1	**100**	–	Provision of ship management services
PB Sea-Tow (NZ) Limited	New Zealand	1 ordinary share without par value	**100**	–	Provision of ship management services and barge owning
PB Towage Limited	The British Virgin Islands/ international	1 share of US$1	**100**	–	Tug owning
PB Towage (No.1) Limited	Cook Islands/international	2 shares of US$1 each	**100**	–	Tug owning and chartering
PB Towage (No.2) Limited	Cook Islands/international	2 shares of US$1 each	**100**	–	Tug owning and chartering
PB Towage (No.3) Limited	Cook Islands/international	2 shares of US$1 each	**100**	–	Barge owning and chartering
PB Towage (No.4) Limited	Cook Islands/international	2 shares of US$1 each	**100**	–	Tug owning and chartering
PB Towage Asset (No.1) Limited	Cook Islands/international	2 shares of US$1 each	**90.1**	–	Tug owning and chartering
PB Towage Asset (No.2) Limited	Cook Islands/international	2 shares of US$1 each	**100**	–	Tug owning and chartering
PB Towage Assets Holdings Pty Ltd	Australia/international	1 ordinary share of AUD1	**90.1**	–	Tug owning and chartering
PBS Corporate Secretarial Limited	Hong Kong	1 share of HK$1	**100**	100	Provision of secretarial services
Pacific Basin Agencies Limited 太平洋航運代理有限公司	Hong Kong/international	1 share of HK$1	**100**	100	Holding company of Japan branch
Pacific Basin Chartering Limited	The British Virgin Islands/ international	10 shares of US$1 each	**100**	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 2) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 3) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 4) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 5) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 6) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 7) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 8) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 9) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering

37 Principal Subsidiaries (Continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2008 %	Interest held 2007 %	Principal activities
Pacific Basin Chartering (No. 10) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 11) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin IHC Limited (Formerly "International Handybulk Carriers Limited")	The British Virgin Islands/ Hong Kong	10 shares of US$1 each	**100**	100	Provision of ship management services
Pacific Basin IHC (UK) Limited [1] (Formerly "IHC (UK) Limited")	England & Wales	2 shares of GBP1 each	**100**	100	Provision of ship management services
Pacific Basin IHX Limited (Formerly "International Handymax Carriers Limited")	Hong Kong	1 share of HK$1	**100**	100	Provision of ship management services
Pacific Basin IHX (UK) Limited [1] (Formerly "IHX (UK) Limited")	England & Wales	1 share of GBP1	**100**	100	Provision of ship management services
Pacific Basin Middle East FZE [1]	United Arab Emirates	1 share of AED1,000,000	**100**	100	Provision of shipping consulting services
Pacific Basin Ship Management Limited	Hong Kong	1 share of HK$1	**100**	100	Provision of ship management services
Pacific Basin Shipping (Australia) Pty Ltd	Australia	1 share of AUD1	**100**	100	Provision of shipping consulting services
Pacific Basin Shipping (Canada) Limited	Province of British Columbia, Canada	1 common share without par value	**100**	100	Provision of shipping consulting services
Pacific Basin Shipping (Germany) GmbH	Germany	1 share of EUR25,000	**100**	100	Provision of shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運(香港)有限公司	Hong Kong	2 shares of HK$10 each	**100**	100	Provision of ship agency services
Pacific Basin Shipping (New Zealand) Limited [1]	New Zealand	100 shares without par value	**100**	100	Provision of shipping consulting services
Pacific Basin Shipping (UK) Limited [1]	England & Wales	2 shares of GBP1 each	**100**	100	Provision of shipping consulting services
Pacific Basin Shipping (USA) Inc.	The United States of America	100 shares of US$10 each	**100**	100	Provision of ship management services
Pacific Basin Shipping Consulting (Shanghai) Limited [1&2] 沛碧航運管理諮詢(上海)有限公司	PRC	US$3,500,000 (registered capital)	**100**	100	Provision of shipping consulting services
PacMarine Services (HK) Limited	Hong Kong	2 shares of HK$1 each	**100**	100	Provision of surveying and consultancy services

37 Principal Subsidiaries (Continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2008 %	2007 %	Principal activities
PacMarine Services (UK) Limited	England & Wales	1,000 shares of GBP1 each	**100**	100	Provision of surveying and consultancy services
PacMarine Services LLC [1]	Texas, USA	1,000 units of US$1 each	**100**	100	Provision of surveying and consultancy services
PacMarine Services Pte. Ltd. [1]	Singapore	1,000 shares of S$1 each	**100**	100	Provision of surveying and consultancy services
PacMarine Services Co., Ltd.	Korea	10,000 shares of 5,000 Won each	**100**	100	Provision of surveying and consulting services
PB Towage (Australia) Holdings Pty. Ltd. (Formerly "AMS (Australia) Holdings Pty Ltd")	Australia/international	1,000 ordinary shares of AUD1 each	**90.1**	90.1	Tug owning and chartering
PB Towage (Australia) Pty. Ltd. (Formerly "Australian Maritime Services Pty. Ltd.)	Australia	1,390,100 ordinary shares of AUD2.34 each	**90.1**	90.1	Provision of ship management services
Prince Rupert Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel owning and chartering
Prospect Number 59 Limited [1]	England & Wales	1 share of GBP1	**100**	–	Vessel owning
Prospect Number 60 Limited [1]	England & Wales	1 share of GBP1	**100**	–	Vessel owning
Supreme Effort Group Limited	The British Virgin Islands/ international	1 share of US$1	**100**	100	Vessel owning
Taihua Shipping (Beijing) Limited [1&2] 太華船務(北京)有限公司	PRC	US$4,000,000 (registered capital)	**100**	100	Provision of agency and ship management services
Uhland Shipping (BVI) Limited	The British Virgin Islands/ international	100 shares of US$0.01 each	**100**	100	Vessel owning
Willow Point Limited	Hong Kong/international	1 share of HK$1	**100**	100	Vessel owning and chartering
PB Maritime Personnel Inc. [1]	The Philippines	1,730,000 shares of PHP$10 each	**100**	–	Provision of crewing services

1 The financial statements of these subsidiaries have not been audited by PricewaterhouseCoopers. The aggregate net assets and net profits for the year attributable to the shareholders of the Group amounted to approximately US$30,243,000 (2007: US$6,047,000) and US$640,000 (2007: US$282,000) respectively.

2 These subsidiaries are wholly foreign-owned enterprises established in the PRC, with registered capital fully paid up by the Group.

GROUP FINANCIAL SUMMARY

US$'000		2008	2007	2006	2005	2004[2]
Results						
Revenue		**1,690,948**	1,177,292	620,444	433,704	302,244
Bunkers, port disbursements and other charges		**(772,222)**	(443,810)	(257,378)	(131,492)	(61,033)
Amounts payable to other pool members		**(9,309)**	(33,009)	(18,290)	(37,529)	(52,328)
Time charter equivalent earnings		**909,417**	700,473	344,776	264,683	188,883
Profit before taxation and disposal gains		**262,590**	335,584	87,640	124,406	104,040
Profit before taxation		**412,408**	473,021	111,427	147,922	104,040
Taxation		**(3,618)**	(889)	(1,135)	(779)	(485)
Profit after taxation		**408,790**	472,132	110,292	147,143	103,555
Attributable to:						
Shareholders		**409,119**	472,125	110,292	147,143	103,555
Minority interests		**(329)**	7	–	–	–
		408,790	472,132	110,292	147,143	103,555
Balance Sheet						
Total assets		**2,330,505**	1,654,336	919,895	674,117	652,805
Total liabilities		**(1,111,803)**	(786,769)	(434,902)	(364,843)	(420,235)
Equity at year end		**1,218,702**	867,567	484,993	309,274	232,570
Total net cash/(borrowings)		**175,929**	(10,730)	(287,223)	(233,174)	(322,413)
Cash and bank balances at year end		**1,023,741**	649,535	63,242	83,711	47,711
Cash Flows						
From operating activities		**459,083**	313,979	148,188	173,291	130,173
From investment activities of which		**(244,496)**	101,982	(241,075)	24,683	(273,208)
gross investment in vessels		**(316,757)**	(257,464)	(285,138)	(118,826)	(273,778)
From financing activities		**110,754**	170,332	74,048	(157,544)	178,942
Change in cash and cash equivalent for the year		**325,341**	586,293	(18,839)	40,430	35,907
Other Data						
Basic EPS	US cents	**24**	30	8	12	10
Dividends per share[1]	US cents	**10**	15	6	8	3
Eligible profit payout ratio[3]		**57%**	52%	71%	73%	56%
Cash flows from operating activities per share	US cents	**27**	20	11	14	12
Net book value per share	US cents	**70**	55	31	24	18
Pre-listing dividends	US$'000	**NA**	NA	NA	NA	49,812
Post-listing dividends	US$'000	**170,142**	243,572	78,562	107,591	38,985

1 No final dividend is proposed for 2008. The 2004 dividends include post-listing dividends only. Pre-listing dividends per share are not presented as such information is not considered to be meaningful for the purpose of these financial statements.

2 The results of the Group for the year ended 31 December 2004 and its assets and liabilities as at 31 December 2004 have been extracted from the Company's 2005 Annual Report dated 6 March 2006. Prior year adjustments were not made for the results extracted for the year ended 31 December 2004 following the adoption of new/revised HKFRS effective from 1 January 2005 as they are considered immaterial.

3 Prior to and including the 2008 Interim Report, eligible profit included all attributable profit in the period, but after the 2008 Interim Report this excluded vessel disposal gains.

INFORMATION FOR SHAREHOLDERS

CORPORATE INFORMATION

Board of Directors

Executive Directors
Mr. David M. Turnbull (Chairman)
Mr. Richard M. Hext (Chief Executive Officer)
Mr. Klaus Nyborg (Deputy Chief Executive Officer)
Mr. Wang Chunlin
Mr. Jan Rindbo

Non-executive Directors
Mr. Daniel R. Bradshaw
Dr. Lee Kwok Yin, Simon, M.B.E., J.P.

Independent non-executive Directors
Mr. Robert C. Nicholson
Mr. Patrick B. Paul
Mr. Alasdair G. Morrison

Principal Board Committees

Executive Committee
Mr. David M. Turnbull
Mr. Richard M. Hext (Chairman)
Mr. Klaus Nyborg
Mr. Wong Chunlin
Mr. Jan Rindbo

Audit Committee
Mr. Patrick B. Paul (Chairman)
Mr. Robert C. Nicholson
Mr. Daniel R. Bradshaw
Mr. Alasdair G. Morrison

Remuneration and Nomination Committees
Mr. Robert C. Nicholson (Chairman)
Mr. Patrick B. Paul
Dr. Lee Kwok Yin, Simon, M.B.E., J.P.
Mr. Daniel R. Bradshaw
Mr. Alasdair G. Morrison

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Bermuda

Presence World Wide
Hong Kong, Shanghai, Beijing, Sydney, Dalian, Nanjing, Tokyo, Seoul, Singapore, Mumbai, Karachi, Dubai, Fujairah, London, Bad Essen, Houston, Vancouver, Auckland, Melbourne, Santiago, Manila, Cebu and Liverpool.

Share Registrar
Computershare Hong Kong Investor Services Limited
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Hopewell Centre
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Wanchai, Hong Kong
tel: + 852 2862 8555 fax: + 852 2865 0990
email: hkinfo@computershare.com.hk

Auditors
PricewaterhouseCoopers

Solicitors
Mayer Brown JSM
Linklaters
Vincent T.K. Cheung, Yap & Co.

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

Website
http://www.pacificbasin.com

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

Stock Code
2343.HK

Listing Date
14 July 2004

Total Shares In Issue
1,747,310,109 as at 31 December 2008

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Financial Calendar for 2009

2008 annual results	**2 March**
Deadline for lodging transfers for entitlement to attend the annual general meeting	4:30 pm HK time, 16 April
Book closure period (both days inclusive)	17 to 21 April
Annual General Meeting	**21 April**
Q1 trading activities update	23 April
2009 interim results	**11 August**
Last day of dealings in Shares with entitlement to interim dividend	13 August
Ex-dividend date	14 August
Deadline for lodging transfers for entitlement to interim dividend	4:30 pm HK time, 17 August
Book closure period (both days inclusive)	18 & 19 August
Record date for interim dividend	19 August
2009 interim dividend payment date	28 August
Q3 trading activities update	29 October

Annual Report

The Annual Report is printed in English and Chinese languages, and are available on our website at www.pacificbasin.com no later than the date it is sent to shareholders on 17 March 2009.

Closure of Register of Members

To be closed from 17 to 21 April 2009 (both days inclusive) and from 18 to 19 August 2009 (both days inclusive).

Annual General Meeting

To be held on Tuesday, 21 April 2009 at 11:00 a.m.. Details of the AGM including shareholders' rights are set out in the Notice of Annual General Meeting section of this Annual Report.

Listing

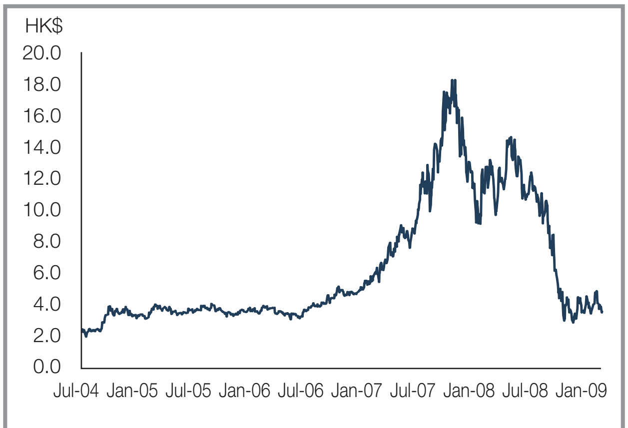
Pacific Basin Shares have been listed on the Main Board of the Stock Exchange in Hong Kong since 14 July 2004.

Stock Code

The Stock Exchange of Hong Kong: 2343
Bloomberg: 2343 HK
Reuters: 2343.HK

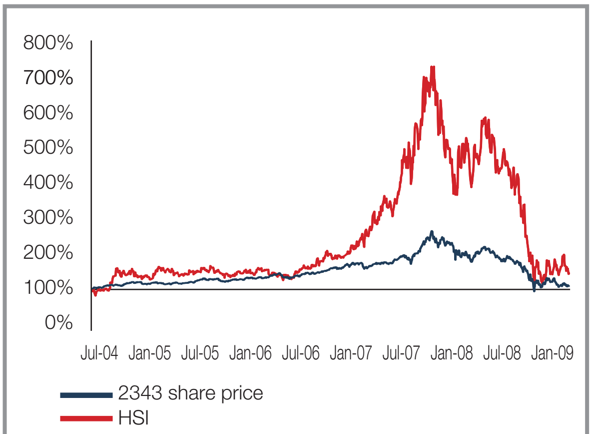
Share Price Performance

- *Pacific Basin Share Price Performance Since Listing (14 July 2004 - 27 Feb 2009)*



Source: Bloomberg LP

- *Relative Performance between Pacific Basin Share Price Performance vs Hang Seng Index (14 July 2004 - 27 Feb 2009)*



Source: Bloomberg LP

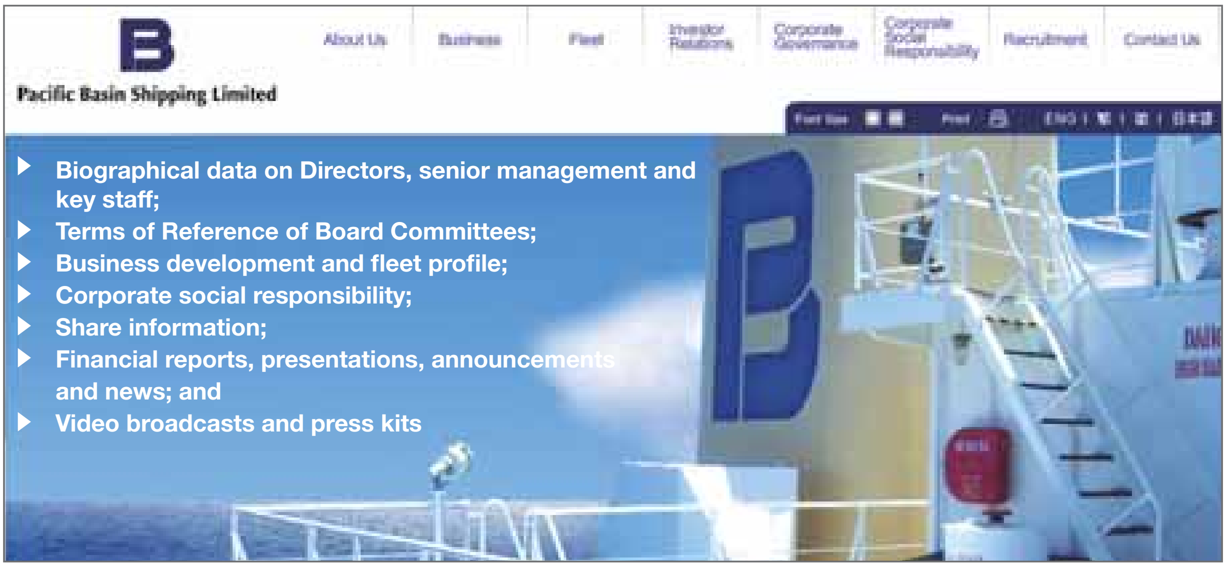
As at 31 December 2008, the market capitalisation of Pacific Basin was US$788.5 million. The Company's Shares are a constituent member of Hang Seng sub index series and MSCI Index series.

Investor Relations and Corporate Communications

The Group's policy is to ensure a high degree of transparency and the Group is committed to ensure that the market is informed of relevant information about the Group on a regular basis, allowing existing and potential shareholders to evaluate the Group, its performance and its prospects. The Company values the communications with its existing and potential investors and believes that investor relations efforts can help the public enhance their understanding of the Group, increase their recognition of the Group's development and ultimately enhance shareholder value.

The Company established the Investor Relations Department at the time of its listing in 2004. This department aims to provide timely information to the investment community and encourage feedback from the public mainly through the following approaches during 2008:

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



- Providing detailed information in annual and interim reports which are supplemented by regular trading updates and announcements. Investors can access this information through our website. For those who prefer hard copies of the information listed above, please contact our Investor Relations Department and we shall provide you with such documents free of charge.

- Briefing to investors and analysts on the Company's interim and annual results, along with timely updates on business development. Vessel visits were organised during 2008 which we invited analysts, investors, lenders and press to visit our vessels or to attend shipyard naming ceremonies of our new vessels.

- Introducing and updating the Group's strategy and development to media by luncheons and results briefings in order to enhance their understanding of the Group and the shipping industry.

- Encouraging feedback, comments, queries and reports from investors and market analysts on Group developments. Shareholders' hotline and e-mail contacts have been established and investors may call our hotline at +852 2233 7054 during business hours, email us at ir@pacificbasin.com or may write directly to the Company at its Hong Kong registered office of 7th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.

During 2008, Pacific Basin received a number of awards for its efforts including:

- "2007-2008 Asia Public Debt Deal of the Year" organised by Marine Money's Asian Ship Finance Awards

- "2008 Global Deal of the Year Awards – Equity Linked" organised by Marine Money

- "Overall Best Managed Company in Hong Kong – Medium Cap" organised by Asia Money Best Managed Companies 2008 Awards

- "Best New Entry" for 2007 Annual Report organised by the Hong Kong Management Association (HKMA) Annual Report Awards

- "Gold Winner in Transportation – Bulk Shipping Services" for 2007 Annual Report organised by Galaxy Awards 2008

- Certificate of Excellence in "Best Investor Relations Officer" and "Best Annual Report and Other Corporate Literature by a Small or Mid-Cap Company" organised by IR Magazine

- "Best Performing Ship Management Company in Tokyo & Paris MOUs Port State Control Inspection" Award 2008 by the H.K.S.A.R. Marine Department

Shares Information

As at 31 December 2008, the Company had 1,747,310,109 ordinary shares in issue, each with a par value of US$0.10. As at that date, the Company had 345 registered shareholders (of whom 307 or 99.70% holding in aggregate 1,742,108,897 ordinary shares, have their registered addresses in Hong Kong) which include nominees, investments funds and the Central Clearing and Settlement System of Hong Kong.

Public Float

As at the date of this Annual Report, based on information that is publicly available to the Company and within the knowledge of the Directors, at least 95.73% of the Company's total issued share capital is held by the public.

Shareholders' Rights

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may write directly to the Company Secretary at the Company's Hong Kong registered office of 7th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, or they may send an email to companysecretary@pacificbasin.com.

Should shareholders wish to call a special general meeting, it must be convened according to the Company's Bye-laws. In summary:

1. Shareholders holding not less than one-tenth of the paid up capital of the Company can, in writing to the Board or the Secretary of the Company, request a special general meeting to be called by the Board so as to carry out any business specified in such request.

2. The signed written request, which should specify the purpose of the meeting, should be delivered to the Company's registered office in Hong Kong. The meeting will be held within two months after being received. If the Board fails to proceed to convene such meeting within twenty-one days of receiving the request, the shareholders themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Shareholders Meeting

The Company held one general meeting during the reporting year.

The annual general meeting was held on 8 April 2008. Resolutions were passed to approve (i) the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2007; (ii) the declaration of HK 75 cents per Share as a final dividend for the year ended 31 December 2007; (iii) the re-election of Directors; (iv) the fixing of the remuneration of the Directors by the Board; (v) the re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2008 and to authorise the Board to fix their remuneration; (vi) the general mandate to issue Shares; (vii) the general mandate to repurchase Shares; and (viii) the renewal of the 2% annual cap within the issue mandate under the Long Term Incentive Scheme.

All resolutions tabled at the annual general meeting were voted on by poll.

NOTICE IS HEREBY GIVEN that the 2009 Annual General Meeting of Pacific Basin Shipping Limited (the "Company") will be held at Bowen Room, Level 7, Conrad Hong Kong, Pacific Place, 88 Queensway, Hong Kong on Tuesday, 21 April 2009 at 11:00 a.m. for the following purposes:

ORDINARY RESOLUTIONS

1. To receive and adopt the audited financial statements and the reports of the Directors and auditors for the year ended 31 December 2008;

2. To re-elect Directors and to authorise the Board of Directors of the Company to fix their remuneration;

3. To re-appoint Messrs. PricewaterhouseCoopers, Certified Public Accountants, as the auditors of the Company and to authorise the Board of Directors of the Company to fix their remuneration;

As special business, to consider and, if thought fit, pass the following resolutions as Ordinary Resolutions:

4. "**GRANT OF A GENERAL MANDATE TO ISSUE SHARES**

   THAT:

   (a) subject to paragraph (c) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to allot, issue or otherwise deal with new shares of US$0.10 each in the capital of the Company (the "Shares") or securities convertible into Shares, or options, warrants or similar rights to subscribe for any Shares, and to make or grant offers, agreements, options and warrants which would or might require the exercise of such powers be generally and unconditionally approved;

   (b) the approval in paragraph (a) of this resolution shall authorise the Directors of the Company during the Relevant Period to make or grant offers, agreements, options and warrants which would or might require the exercise of such power after the end of the Relevant Period;

   (c) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted (whether pursuant to an option or otherwise) by the Directors of the Company pursuant to the approval in paragraph (a) of this resolution, otherwise than pursuant to Shares issued as a result of a Rights Issue (as defined below), the exercise of the subscription or conversion rights attaching to any warrants issued by the Company or the exercise of options granted under the long term incentive scheme of the Company or any scrip dividend providing for the allotment of Shares in lieu of the whole or part of a dividend on Shares, shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, provided that any Shares to be allotted and issued pursuant to the approval in paragraph (a) above shall not be issued at a discount of more than 10% to the Benchmarked Price of the Shares, and the said approval shall be limited accordingly; and

(d) for the purposes of this resolution:

"Benchmarked Price" shall be a price which is the higher of:

(i) the closing price of the Shares as stated in the daily quotations sheet of the Stock Exchange on the date of signing of the agreement to which the transaction relates; or

(ii) the average closing price of the Shares as stated in the Stock Exchange's daily quotations sheet for the five trading days immediately preceding the earliest of:

(A) the date of signing of the agreement to which the transaction relates; or

(B) the date on which the relevant transaction is announced; or

(C) the date on which the price of the Shares to be issued pursuant to the transaction is fixed.

"Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Act 1981 of Bermuda or the Company's Bye-laws to be held; and

(iii) the revocation or variation of the authority given under this resolution by an ordinary resolution of the Shareholders of the Company in general meeting.

"Rights Issue" means the allotment, issue or grant of Shares pursuant to an offer of shares open for a period fixed by the Directors of the Company to holders of Shares of the Company on the register of members of the Company on a fixed record date in proportion to their then holdings of such Shares (subject to such exclusions or other arrangements as the Directors of the Company may deem necessary or expedient in relation to fractional entitlements or having regard to any restrictions or obligations under the laws of, or the requirements of any recognised regulatory body or any stock exchange in, any territory applicable to the Company)."

5. "**GRANT OF A GENERAL MANDATE TO REPURCHASE SHARES**

THAT

(a) subject to paragraph (b) of this resolution, the exercise by the Directors of the Company during the Relevant Period (as defined below) of all the powers of the Company to purchase or repurchase shares of US$0.10 each in the capital of the Company (the "Shares") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") or on any other stock exchange on which the Shares may be listed and recognised for this purpose by the Securities and Futures Commission of Hong Kong and the Stock Exchange be generally and unconditionally approved;

(b) the aggregate nominal amount of the Shares which may be purchased or repurchased by the Company pursuant to the approval in paragraph (a) of this resolution during that Relevant Period shall not exceed 10% of the aggregate nominal amount of the share capital of the Company in issue at the date of passing this resolution, and the said approval shall be limited accordingly; and

(c) for the purposes of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Act 1981 of Bermuda or the Company's Bye-laws to be held; and

(iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the Shareholders of the Company in general meeting."

6. "**RENEWAL OF THE 2% ANNUAL CAP WITHIN THE ISSUE MANDATE UNDER THE LONG TERM INCENTIVE SCHEME**

THAT

(a) the aggregate nominal amount of share capital allotted or agreed conditionally or unconditionally to be allotted by the Directors of the Company pursuant to paragraph (b) of the ordinary resolution passed by Shareholders at a special general meeting of the Company held on 8 June 2005 to satisfy Share Awards, shall during the Relevant Period not exceed 2% of the aggregate nominal amount of the share capital of the Company in issue as at the beginning of each such financial year (being 34,946,202 Shares as at 1 January 2009); and

(b) for the purposes of this resolution, "Relevant Period" means the period from the passing of this resolution until whichever is the earlier of:

(i) the conclusion of the next annual general meeting of the Company;

(ii) the expiration of the period within which the next annual general meeting of the Company is required by the Companies Act 1981 of Bermuda or the Company's Bye-laws to be held; and

(iii) the date on which the authority set out in this resolution is revoked or varied by an ordinary resolution of the Shareholders of the Company in general meeting."

As special business, to consider and, if thought fit, pass the following resolution as a Special Resolution:

7. "**AMENDMENTS TO THE BYE-LAWS**

THAT the Bye-laws of the Company be amended by deleting the existing Bye-law 127.(1) in its entirety and replacing it with the following new Bye-law 127.(1):

127.(1) The officers of the Company shall consist of a president or chairman, the Directors and Secretary and such additional officers (who may or may not be Directors) as the Board may from time to time determine, all of whom shall be deemed to be officers for the purposes of the Act and these Bye-laws."

By Order of the Board

Andrew T. Broomhead
Company Secretary

Hong Kong,
17 March 2009

Notes:

1. Every member entitled to attend and vote at the Annual General Meeting is entitled to appoint one or more persons as their proxy to attend and vote on behalf of themselves. A proxy need not be a member of the Company.

2. To be valid, a form of proxy, together with the power of attorney or other document of authority, if any, under which the form is signed, or a certified copy thereof, must be deposited with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1806-1807, 18th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not less than 48 hours before the time appointed for holding the Annual General Meeting or any adjournment thereof (as the case may be).

3. Completion and return of the form of proxy will not preclude Shareholders from attending and voting in person at the meeting or any adjourned meeting or upon the poll concerned if Shareholders so wish. In such event, the instrument appointing the proxy shall be deemed to be revoked.

4. The register of members of the Company will be closed from 17 April 2009 to 21 April 2009 (both days inclusive), during which period no transfer of Shares in the Company will be effected. In order to qualify for attending the Annual General Meeting, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4:30 p.m. on 16 April 2009.

5. A circular containing the information regarding, inter alia, the Directors proposed to be re-elected, the general mandate to issue Shares, the general mandate to repurchase Shares of the Company, the renewal of the 2% annual cap within the issue mandate under the Long Term Incentive Scheme and the amendments to the Bye-laws will be sent to Shareholders of the Company together with the Company's 2008 Annual Report.

GLOSSARY OF TERMS

"back haul"	routes which are against the standard flow of traffic, i.e. loading in a port situated in what is usually a discharge area, and discharging in a port situated in what is usually a loading area
"ballast"	the period of time during which a ship performs a voyage without cargo on board
"Baltic Dry Index" or "BDI"	the BDI is published every London working day by the Baltic Exchange, who collate information for Handysize, Supramax, Panamax and Capesize vessels to create this lead freight market indicator
"Baltic Handysize Spot Index" or "Baltic Handysize Index" or "BHSI"	the BHSI is published every London working day by the Baltic Exchange, who have collated information on fixtures for a number of routes in relation to a standard "28,000 dwt" vessel with 4 x 30 mt cranes and maximum 15 years of age. The index is also published on the basis of a Time Charter return, and is used to determine the value of the trading routes and settlement prices for FFAs
"Baltic Supramax Index" or "BSI"	the BSI is published every London working day by the Baltic Exchange, who have collated information on fixtures for a number of routes in relation to a standard "Tess 52" type vessel of 52,454 dwt, with 4 x 30 mt cranes and grabs, and maximum 10 years of age. The index is also published on the basis of a Time Charter return, and is used to determine the value of the trading routes and settlement prices for FFAs
"bareboat" or "bareboat charter"	charter for an agreed period of time during which the ship owner provides only the ship while the Charterer provides the crew together with all stores and Bunkers and pays all Vessel Operating Costs
"barge"	flat barges are designed to carry cargo, typically bulk cargoes such as rock, aggregates, coal and project cargos and break-bulk cargoes. Barges may be used for short sea voyages where cargo volumes make larger vessels less economical, for serving shallow draft ports or for offshore lightering operations. Barges may be ballastable and designed for ocean, coastal or river operations
"beam"	the greatest width of a vessel
"Board"	the board of directors of the Company
"bollard pull"	a measure of the pulling power of a tug in tons. It is an indication of the maximum pulling force that a tug can exert on another ship or object
"bulk" or "dry bulk"	an expression for bulk commodities or Dry Cargo, referring to everything stowed in bulk without packaging
"bunker(s)"	fuel, consisting of fuel oil and diesel, burned in the vessels' engines
"capesize"	dry bulk carrier with a capacity of more than 100,000 dwt (usually 130,000 to 200,000 dwt) which, due to its size, must transit the Atlantic to the Pacific via Cape Horn or the Cape of Good Hope when loaded. Such large vessels are typically employed for long voyages in the coal and iron ore trades

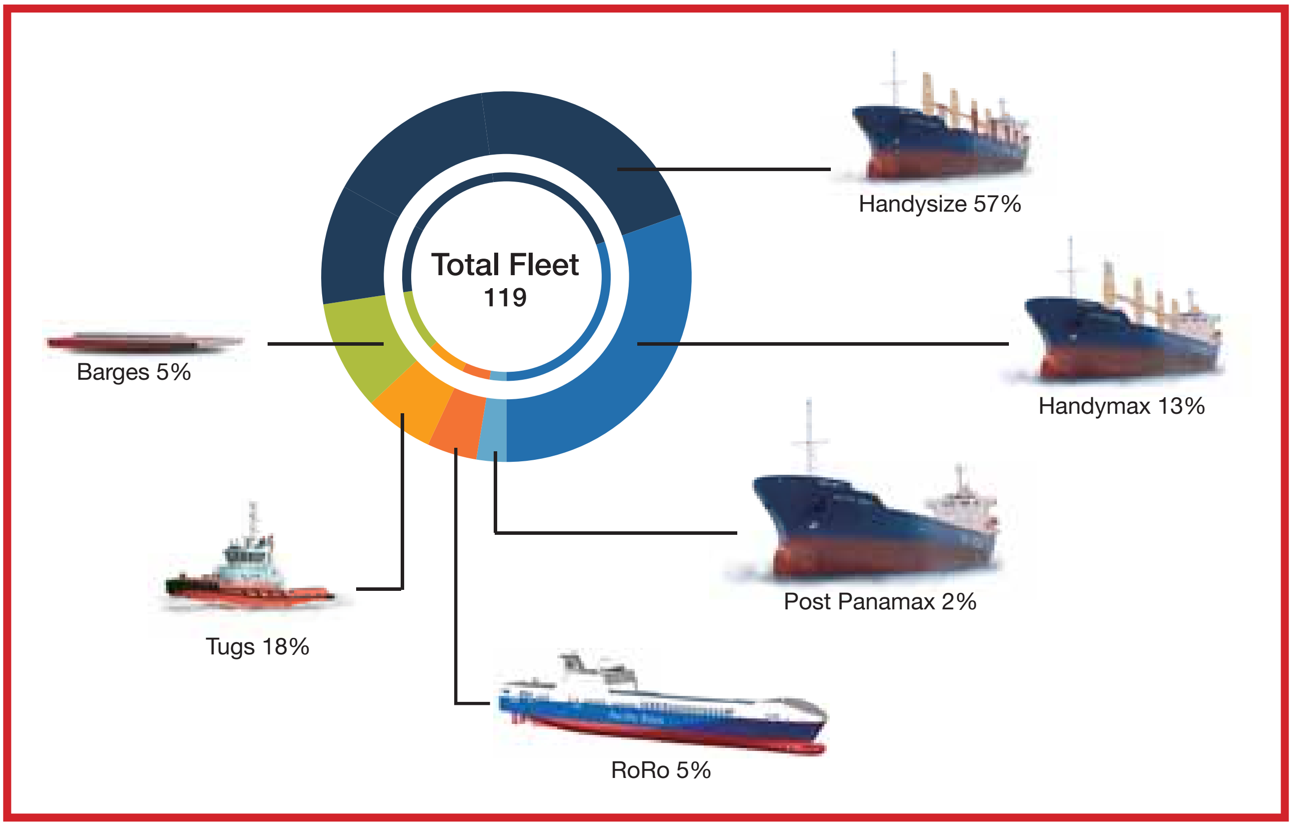
"charter"	a contract for the commercial leasing of a vessel or space on a vessel
"charter-hire"	the revenue earned by a vessel pursuant to a Bareboat Charter or a Time Charter (See "freight" for Voyage Charter or Contract of Affreightment revenue)
"charterer"	a person, firm or company hiring a vessel for the carriage of goods or other purposes
"classification societies"	independent societies which certify that a vessel has been built and is maintained in accordance with the rules of such society and in compliance with the applicable rules and regulations of the vessel's Flag State and the international conventions of which that Flag State is a signatory
"commercial management"	management of those aspects of ship owning and operation that relate to obtaining economic value from the vessel which includes ship financing, sale and purchase, chartering or vessel employment, voyage execution, insurance and claims handling, accounting and corporate administration
"contract of affreightment" or "COA"	is similar to a Voyage Charter but covers two or more shipments over an agreed period of time (this could be over a number of months or years), and no particular vessel is specified
"demurrage"	an agreed amount payable to the ship owner by the Charterer when the agreed time allowed for loading or unloading cargo has been exceeded through no fault of the owner
"draft"	vertical distance between the waterline and the bottom of the vessel's keel (i.e. the depth of the ship in the water)
"dry cargo"	transport of non-liquid cargo, usually Bulk commodities such as grain, coal, iron ore, sugar and cement, but also packaged general cargo
"drydocking"	the removal of a vessel from the water for inspection, maintenance and/or repair of parts that are normally submerged
"dwt" or "deadweight"	deadweight tonnes, the unit of measurement of weight capacity of vessels, which is the total weight (usually in metric tonnes) the ship can carry, including cargo, Bunkers, water, stores, spares, crew, etc. at a specified Draft
"flag state"	the country where the vessel is registered
"forward freight agreements" or "FFAs"	a derivative instrument that is a means of hedging exposure to freight market risk through the purchase or sale of specified time charter rates for forward positions. Settlement is in cash, against a daily market index published by the Baltic Exchange
"freight"	the revenue earned by a vessel pursuant to a Voyage Charter or a Contract of Affreightment
"front haul"	routes which follow the typical flow of the transportation of cargoes from the main loading areas to the main discharging areas

"handymax"	dry bulk carrier of about 40,000 to 60,000 dwt which is commonly equipped with cargo gear such as cranes. This type of vessel carries a wide variety of cargoes including Major Bulk and Minor Bulk cargoes
"handysize"	dry bulk carrier of about 10,000 to 40,000 dwt which is commonly equipped with cargo gear such as cranes. This type of vessel carries principally Minor Bulk cargoes and limited quantities of Major Bulk cargoes. It is well suited for transporting cargoes to ports that may have Draft restrictions or are not equipped with gear for loading or discharging cargoes
"IMO"	International Maritime Organisation, a specialised agency of the United Nations that promotes cooperation among governments and the shipping industry to improve maritime safety and to prevent pollution
"ISM Code"	the International Management Code for the Safe Operation of Ships and for Pollution Prevention adopted by IMO
"lane metre"	the unit of measurement of capacity of RoRo vessels, which is calculated by multiplying the cargo deck length in metres by the cargo deck width in lanes
"Listing Rules"	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
"mt" or "tonnes"	metric tonnes
"major bulk"	dry bulk cargoes consisting of iron ore, coal and grain
"minor bulk"	dry bulk cargoes such as forest products, iron and steel products, fertilisers, agricultural products, minerals and petcoke, bauxite and alumina, cement, other construction materials and salt
"newbuilding"	a vessel under construction or on order
"off-hire"	period during which a vessel is temporarily unable to operate under the terms of its Charter, resulting in loss of income under the Charter
"P&I"	protection and indemnity insurance coverage taken by a ship owner or Charterer against third party liabilities such as oil pollution, cargo damage, crew injury or loss of life, etc.
"Pacific Basin-IHC Pool" or "Pacific Basin-IHC" or "IHC"	a contractual arrangement established in October 2001 for the sharing of revenue earned by vessels entered into by its members
"Pacific Basin-IHX Pool" or "Pacific Basin-IHX" or "IHX"	a contractual arrangement established in July 2006 for the sharing of revenue earned by vessels entered into by its members
"panamax"	dry bulk carrier of about 60,000 to 80,000 dwt with Beam not exceeding 32.2 metres which permits it to transit, when fully loaded, through the Panama Canal. Panamax vessels are primarily used to transport Major Bulks, although they can be used to transport certain Minor Bulks such as fertilisers, ores, petcoke and salt

"pool"	a grouping of vessels of similar size and characteristics, which are owned by different owners but which are commercially operated together. The pool manager is mandated to charter the vessels out for the maximum benefit of the pool as a whole. Earnings are equalised taking account of the difference in the vessels' specifications, the number of days the vessels had been ready for charter, etc.
"post panamax"	dry bulk carrier of about 80,000 to 130,000 dwt with Beam exceeding 32.2 metres, which are mainly used to transport coal and grains; occasionally referred to as mini-capesize
"Roll on Roll off" or "RoRo"	means roll on roll off transportation involving the carriage of wheeled cargoes and freight on wheeled trailers which can be loaded and discharged over a ramp, rather than lifted on and off the vessel using cranes
"spot" or "spot market"	the market for immediate chartering of a vessel, usually for a single cargo or short term trading
"supramax"	dry bulk carrier within the Handymax sector, of about 50,000 to 60,000 dwt, which is usually grab fitted and carries a wide variety of cargoes including Major Bulk and Minor Bulk cargoes
"technical management"	management of those aspects of ship owning and operation that relate to the physical operation of a vessel, including the provision of crew, routine maintenance, repairs, drydocking, supplies of stores and spares, compliance with all applicable international regulations, safety and quality management, environmental protection, newbuilding plan approval and newbuilding supervision, and related technical and financial reporting
"time charter"	Charter for an agreed period of time where the ship owner is paid on a per day basis and is responsible for operating the vessel and paying the Vessel Operating Costs while the Charterer is responsible for paying the Voyage Costs and bears the risk of any delays at port or during the voyage except where caused by a defect of the ship
"time charter equivalent earnings" or "TCE"	Freight and Charter-hire less Voyage Costs incurred expressed as a daily rate over the duration of the voyage
"tonnage"	a generic term referring to any kind of ocean-going cargo vessel or vessels
"tonne-mile"	a measure of demand for capacity, calculated as the amount of Freight times the transport distance in nautical miles
"tug"	small vessel with varied uses covering harbour assist work (berthing of large cargo/passenger vessels), servicing offshore oil activity, salvage work and towing barges for the purpose of transporting cargoes
"voyage charter"	Charter under which a ship owner is paid Freight on the basis of transporting cargo from a load port to a discharge port and is responsible for paying both Vessel Operating Costs and Voyage Costs
"vessel operating costs"	these consist of crew expenses, insurance, spare parts, stores and lubricating oils, vessel repairs and surveys, commissions and other miscellaneous running costs
"voyage costs"	Bunker costs, port charges and canal dues (or tolls) incurred during the course of a voyage

FLEET LIST

Pacific Basin Fleet Distribution By Number Of Vessels (excluding short term chartered vessels)



The Pacific Basin Fleet As At 28 February 2009

Dry Bulk Vessels

	Delivered		Newbuildings on Order		Short Term	
	Owned	Chartered[1]	Owned	Chartered[1]	Chartered[2]	Total
Handysize	18	44	4	2	11	**79**
Handymax	2	13	–	1	17	**33**
Post Panamax	–	–	1	1	–	**2**
Total Dry Bulk Vessels	**20**	**57**	**5**	**4**	**28**	**114**

Other Vessel Types

	Delivered		Newbuildings on Order		Short Term	
	Owned	Chartered	Owned	Chartered	Chartered	Total
Roll on Roll off	–	–	6	–	–	**6**
Tugs	17	–	4	–	–	**21**
Barges	6	–	–	–	–	**6**
Total Other Vessel Types	**23**	**–**	**10**	**–**	**–**	**33**
Grand Total	**43**	**57**	**15**	**4**	**28**	**147**

Notes:

1 Our dry bulk chartered fleet comprises 13 vessels under finance leases and 48 vessels under operating leases

2 Short term charters are generally those with charter periods not exceeding six months

Dry Bulk Vessels

Handysize Fleet

Owned Fleet — 18 Vessels	dwt	Year Built
1. Darling River	33,098	2009
2. Santiago Basin	33,171	2008
3. Diamond Harbour	33,171	2008
4. Port Phillip	33,171	2008
5. Silver Lake	33,171	2008
6. Mount Owen	28,333	2008
7. Taihua Star	28,456	2007
8. Mount Rainier	32,815	2005
9. Portland Bay	28,446	2004
10. Mount Adams	28,442	2002
11. Hawke Bay	28,460	2001
12. Tasman Sea	28,456	2001
13. Champion Bay	32,835	2000
14. English Bay	32,834	2000
15. Kiwi Trader	31,879	2000
16. Pacific Logger	31,877	2000
17. Chatham Island	32,211	1997
18. Yin Xiu	28,730	1995
Subtotal:	**559,556**	

Chartered Fleet — 44 Vessels	dwt	Year Built
19. Elliott Bay	32,215	2009
20. Benete Bay	28,342	2008
21. Crescent Harbour	32,256	2007
22. Pharos SW	32,027	2007
23. Port Angeles *	28,448	2007
24. Union Bay *	32,355	2006
25. Shimanami Star	28,445	2006
26. Genco Champion	28,445	2006
27. Cape Knox *	28,442	2006
28. Duncan Bay *	28,414	2006
29. Port Alice *	31,871	2005
30. Genco Charger	28,398	2005
31 Great Dream	33,745	2004
32. Port Pegasus * ^	32,774	2004
33. Sun Ruby * ^	32,754	2004
34. Cook Strait * ^	31,894	2004
35. Timaru Star * ^	31,893	2004
36. Port Kenny *	28,449	2004
37. Cape Flattery * ^	28,433	2004
38. Black Forest * ^	32,751	2003
39. Genco Challenger	28,428	2003
40. Mount Travers * ^	28,484	2002
41. Mount Fisher *	28,470	2002
42. Ocean Exporter * ^	28,461	2002
43. Albany Sound * ^	28,379	2002
44. CS Solaris	28,492	2001

Chartered Fleet (continued)	dwt	Year Built
45. Cape York *	28,471	2001
46. Port Botany *	28,470	2001
47. Cape Nelson * ^	28,438	2001
48. Nin	28,373	2000
49. Cape Spencer * ^	28,799	1997
50. Castle Island * ^	28,759	1997
51. Cape Scott * ^	28,747	1997
52. Bering ID	28,611	1997
53. Captain T	28,585	1997
54. Baltic ID	28,545	1997
55. Niki T	27,827	1997
56. Eleni T	27,802	1997
57. Arctic ID	28,251	1996
58. Caribbean ID	27,940	1996
59. ID Harbour	28,760	1995
60. Pacific ID	27,860	1995
61. Mediterranean ID	28,475	1994
62. Ocean ID	28,429	1994
Subtotal:	**1,294,207**	

Handymax Fleet

Owned Fleet — 2 Vessels	dwt	Year Built
1. Pacific Sea	53,589	2004
2. Pacific Victory [1]	52,394	2001
Subtotal:	**105,983**	

Chartered Fleet — 13 Vessels	dwt	Year Built
3. Falcon Trader II	54,924	2009
4. Genco Hunter	58,479	2007
5. Ocean Diamond	53,503	2007
6. Xiamen Sky *	53,605	2005
7. Medi Osaka	53,098	2003
8. Heron	52,827	2001
9. Falcon	50,296	2001
10. Peregrine	50,913	2001
11. Medi Trader	48,225	1999
12. Tonghai	47,980	1999
13. Genco Prosperity	47,180	1997
14. Furia R	46,664	1996
15. Ming Hai	45,593	1996
Subtotal:	**663,287**	

Dry Bulk Newbuildings on Order

Handysize Newbuildings on Order

Owned Fleet – 4 Vessels	dwt	Scheduled Delivery
1. Jiangmen Hull 106	32,500	2009
2. Jiangmen Hull 113	32,000	2009
3. Jiangmen Hull 114	32,000	2009
4. Imabari Hull S-A012	28,000	2009
Subtotal:	124,500	

Chartered Fleet – 2 Vessels	dwt	Scheduled Delivery
5. Shikoku Hull 1061	29,000	2011
6. Shikoku Hull 1069 *	28,900	2011
Subtotal:	57,900	

Handymax Newbuilding on Order

Chartered Fleet – 1 Vessel	dwt	Scheduled Delivery
1. Guoyu Hull 437	57,000	2010

Post Panamax Newbuildings on Order

Owned Fleet – 1 Vessel	dwt	Scheduled Delivery
1. Jiangnan Hull 1013A	115,000	2011

Chartered Fleet – 1 Vessel	dwt	Scheduled Delivery
2. Imabari Hull S-1565 *	95,000	2011

* *The Group has the option but is not committed to purchase 23 handysize, 1 handymax and 1 post panamax vessels and newbuildings under the terms of their charter*

^ *Vessels on finance leases*

[1] *The sale and delivery of Pacific Victory is expected to be completed in April 2009*

Other Vessel Types

Tug Fleet

Owned Fleet – 17 Vessels	Horse Power	Bollard Pull (Ton)	Year Built
1. PB King	5,000	64.9	2008
2. PB Fitzroy	5,000	64.1	2008
3. PB Murray	5,600	68.6	2008
4. PB Darling	5,600	68.2	2008
5. PB Diamantina	5,000	65.0	2008
6. PB Kaituna	4,400	53.2	2008
7. PB Pearl	3,200	40.0	2007
8. PB Progress	3,000	46.5	2007
9. PB Pride	2,400	38.0	2006
10. Karori	2,400	35.0	2001
11. Katea	2,368	35.0	2001
12. Botany	4,000	54.4	2000
13. Hunter	4,000	54.4	2000
14. Flinders 1	3,200	43.0	1995
15. Yarra	3,200	43.0	1995
16. Gibson	4,300	57.4	1994
17. Cook	4,300	57.4	1994

Tug Newbuildings On Order

Owned Fleet – 4 Vessels	Horse Power	Bollard Pull (Ton)	Scheduled Delivery
1. Damen Hull 512230	5,500	68.0	2009
2. Damen Hull 512231	5,500	68.0	2009
3. Damen Hull 512232	5,500	68.0	2010
4. Damen Hull 512233	5,500	68.0	2010

Barge Fleet

Owned Fleet – 6 Vessels	dwt	Year Built
1. PB1	12,000	2007
2. PB4	9,350	2006
3. Sea-Tow 60	6,000	2003
4. Sea-Tow 61	6,000	2003
5. Sea-Tow 80	7,900	1994
6. Sea-Tow 35	3,544	1990

Roll On Roll Off Newbuildings on Order

Owned Fleet – 6 Vessels	Lane Metre	Gross Tonnage	Scheduled Delivery
1. Odense Hull L218	3,663	28,870	2009
2. Odense Hull L220	3,663	28,870	2010
3. Hyundai Mipo Hull 8048 [2]	3,810	32,300	2010
4. Hyundai Mipo Hull 8049 [2]	3,810	32,300	2010
5. Odense Hull L233	3,663	29,400	2010
6. Odense Hull L234	3,663	29,400	2011

[2] *The two RoRo newbuilding vessels can be acquired by the Group within approximately 2 months of their delivery from the shipyard subject to the exercise of purchase options*

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