Pacific Basin Shipping Limited

Dry Bulk ▪ Energy and Infrastructure Services ▪ RoRo

Stock Code: 2343

2009 Annual Report

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A glossary covering many of the terms in this document is available on our website at www.pacificbasin.com

Results Highlights

Group

- **Group profits were US$110 million** (2008: US$409 million) in a better year for dry bulk than expected due to a strong recovery in commodity demand from China
- Results incorporate a net US$25 million write-back of onerous dry bulk contracts for future periods and a US$25 million impairment of our RoRo investment
- **Basic earnings per share were HK$0.46** (2008: HK$1.89), return on average equity was 8% and return on average assets was 5%
- **Operating cash flow of US$145 million** (2008: US$459 million)
- **Reduced handysize fleet daily breakeven costs by 35%** and total administrative expenses by 14%
- **Robust balance sheet with US$1,106 million cash** and US$229 million net cash; **fully funded capital commitments** of US$306 million in non-dry bulk vessels and US$151 million in dry bulk vessels
- **Full year dividend of HK 23 cents per share** (2008: HK 76 cents) including a proposed final dividend of HK 15 cents

Fleet

- **Contract cover in place for 64% of our combined handysize and handymax revenue days in 2010**. 59% of our contracted 22,630 handysize revenue days in 2010 are covered at US$14,290 per day net
- **Acquired 5 dry bulk vessels and chartered in another 3 on a long term basis** since reviving our fleet expansion activity in December 2009
- **Fleet (including newbuildings) now totals 167 vessels** comprising 121 dry bulk vessels, 39 tugs and barges, 1 bunker tanker and 6 RoRos

Divisions

- **Pacific Basin Dry Bulk** made a profit of US$138 million and, through proactive management of cargo book, fleet composition and overhead costs, is well prepared to weather further volatility and expand in scale over the long term
- **PB Energy & Infrastructure Services** comprising mainly PB Towage and Fujairah Bulk Shipping made a profit of US$8 million and continues to make good progress despite challenging times
- **PB RoRo's first vessel delivered in September 2009** resulting in a profit of US$0.1 million. The Group also incurred a US$25 million impairment charge reflecting concerns we now have about deploying RoRo vessels profitably in the next two years

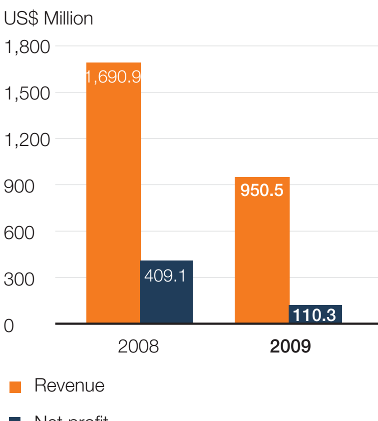
Outlook

- **Our dry bulk market outlook** for the year improves from negative to neutral in expectation of better, albeit still volatile, demand/supply balance
- **Our cargo book today** has relatively lower value compared to early 2009 thus reducing secured underlying revenue for 2010
- **Mixed outlook for energy and infrastructure services** with expectations of marked strengthening in demand for offshore towage but continued sluggish demand for harbour towage
- **RoRo market remains depressed and is expected to see limited short term improvement** due to fragile European economic recovery. Fundamentals continue to look positive for the long term
- **Ambitions recalibrated and goals set** to significantly expand our dry bulk operations and energy and infrastructure services in the years ahead

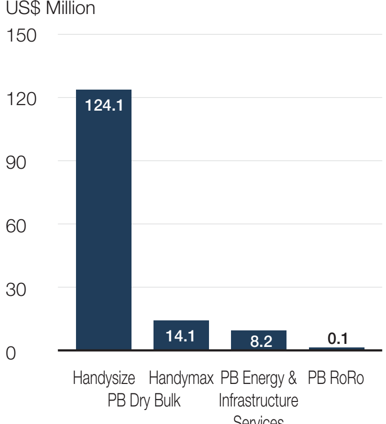
Financial Summary

	YOY % change	2009 US$'000	2008 US$'000	2007 US$'000
Results				
Revenue	*(44%)*	**950,477**	1,690,948	1,177,292
Gross profit	*(57%)*	**152,796**	358,597	384,522
Finance costs, net	*23%*	**(27,321)**	(22,125)	(17,847)
Net profit attributable to shareholders	*(73%)*	**110,278**	409,119	472,125
Balance Sheet				
Total assets	*6%*	**2,469,893**	2,330,505	1,654,336
Net cash/(borrowings)		**229,084**	175,929	(10,730)
Shareholders' equity	*19%*	**1,455,567**	1,218,702	867,567
Cash and deposits	*8%*	**1,105,662**	1,023,741	649,535
Capital commitments	*(30%)*	**310,261**	445,771	291,366
Cash Flows				
Operating		**145,337**	459,083	313,979
Investing		**(177,776)**	(244,496)	101,982
Financing		**55,718**	110,754	170,332
Change in cash		**23,279**	325,341	586,293
Per Share Data		**HK cents**	HK cents	HK cents
Basic EPS	*(76%)*	**46**	189	234
Dividends	*(70%)*	**23**	76	120
Operating cash flows	*(71%)*	**61**	212	156
Net book value	*8%*	**585**	543	427
Share price at year end	*60%*	**563**	352	1,258
Market capitalisation at year end		**HK$10.9bn**	HK$6.2bn	HK$19.9bn
Ratios				
Net profit %		**12%**	24%	40%
Eligible profit payout ratio		**51%**	57%	52%
Return on average assets		**5%**	21%	46%
Return on average equity		**8%**	35%	78%
Total shareholders' return		**62%**	(60%)	171%
Net cash to book value of property, plant and equipment		**23%**	22%	(1%)
Net cash to shareholders' equity		**16%**	14%	(1%)
Interest coverage		**5.1X**	10.4X	22.2X

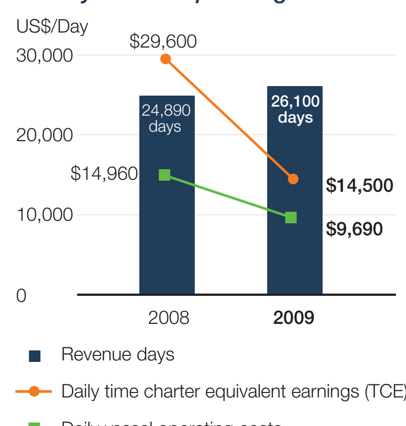
Revenue and Net Profit



Segment Net Profit



Handysize: Revenue Days, Daily TCE & Daily Vessel Operating Costs



CHAIRMAN'S STATEMENT

"Tiwai Point" commences her first laden voyage carrying sugar from Bundaberg, Australia to Auckland, New Zealand

Overview

After an unprecedented collapse in 2008, the dry bulk market in 2009 saw an unexpectedly positive though volatile recovery. Handysize spot earnings and the Baltic Dry Index increased approximately fourfold over the year from an extreme low as much improved demand outweighed the effect of record high new ship deliveries. Our strong book of forward cargo cover coming into 2009 offered valuable protection against low freight rates early in the year.

Our other main segments experienced more mixed fortunes. Pacific Basin's energy and infrastructure services segment (mainly comprising PB Towage and Fujairah Bulk Shipping) saw a significant weakening in harbour towage activity but relatively robust demand for offshore and other infrastructure services. PB RoRo successfully deployed its first vessel. The RoRo market, however, continued to languish due to much reduced trade volumes in European waters.

We took measures in the first half of 2009 to strengthen our resilience to the challenging market, such as a group-wide cost saving exercise that reduced total administrative expenses by 14% year on year and contributed to a 35% reduction in our handysize fleet daily breakeven costs. We gave much effort in the second half of the year to refining and recalibrating our ambitions. Planning ahead, we have set ourselves the following key goals for 2010 and beyond:

- Significantly expand our dry bulk fleet subject to price and market developments
- Grow our energy and infrastructure services operations in specialised markets with high entry barriers, focusing on Australasia and the Middle East
- Secure employment for our remaining RoRo newbuildings which deliver in the second half of 2010 and 2011

Our focus remains on our three core businesses with new investment predominantly directed towards our cornerstone dry bulk activity due to the increasing availability of assets at relatively low prices and a reasonably promising longer term outlook after 2011.

Results Summary

Pacific Basin produced net profits of US$110 million in 2009 (2008: US$409 million) and basic earnings per share of HK 46 cents. The results were after a net US$25 million write-back of onerous dry bulk contracts for future periods and a US$25 million impairment of our RoRo investment. The Group made a return on average equity of 8%. While the lower profit mainly reflected a reduction in our average handysize daily earnings from US$29,600 per day to US$14,500 per day, these were still 35% above average handysize spot rates in 2009, reflecting the value of our strong cargo book.

The Board has recommended a final dividend of HK 15 cents per share bringing the total for 2009 to HK 23 cents per share (2008: HK 76 cents), representing a payout of 51% of profits excluding disposal gains.

Our balance sheet remained robust throughout the year. As at 31 December 2009 we had US$1.1 billion in cash and bank balances and our net cash was US$229 million, which positions us well to weather volatility and take advantage of the opportunities ahead.

Dry Bulk Shipping

At the start of 2009, the world was struggling with a difficult recession, dry bulk freight rates were at their lowest levels since 1986, and a record large orderbook pointed to potentially three times more dry bulk newbuilding deliveries in 2009 than in any previous year. Most industry analysts were predicting a bearish year for the sector. What transpired was somewhat unexpected: far fewer newbuildings delivered during the year than had been scheduled, and stimulus packages and general global economic recovery spurred much increased commodity demand, especially in China, with a consequent improvement in trading conditions and freight rates. Nevertheless, the much depressed market in the early months of 2009 was unforgiving towards ship owners exposed to the spot freight market.

We have seen the relatively strong commodity demand continue into 2010 and expect that it will generally keep pace with dry bulk fleet growth in the first half of the year. For the remainder of 2010 and 2011, our dry bulk market view is tempered by caution due mainly to the unpredictable impact of accelerating newbuilding deliveries. Overall, however, our view of the sector for the next one to two years has shifted from negative to neutral. Our outlook for the longer term beyond 2011 is more positive in the expectation that Asia's sustained industrialisation will support continued strong demand growth, and a declining orderbook overhang will lead to a more favourable demand/supply balance.

We expect the dry bulk market to continue to be characterised by an increasing dependence on China's growing commodity consumption and the volatility generated by its fluctuating demand for raw material imports. Currently, some 35% of global dry bulk cargoes are China bound, which makes the market more prone to large distortions than it has been historically. We believe our business model allows us to manage such variable conditions in a number of ways, including through adjustments in our mix of owned, long term chartered and short term chartered ships, and through use of a full range of chartering tools, thereby affording ourselves the agility to adapt to make the most of market changes.

We continue to maintain our policy of prudently locking in forward cargo cover, which positions us well to weather the volatility ahead and provides a degree of protection if dry bulk shipping demand proves unable to absorb excessive fleet growth. As at 22 February 2010, our combined dry bulk fleet had forward cargo cover of 64% for 2010 in terms of handysize-equivalent days, and we are now focused on building our forward cargo book for 2011 and beyond.

With our changed outlook, we have revived our dry bulk fleet expansion efforts from December 2009 with the purchase of five ships at some of the lowest prices of the past five years and through the long term charter of a further three ships.

Our growth ambition for our cornerstone dry bulk business is to significantly expand our fleet over the long term through a measured programme of purchasing and chartering in ships at the right price and time. We remain especially conscious of the ever-changing market conditions and mindful not to substantially increase our fleet breakeven costs. The majority of the Group's new investment will be in this sector.

Energy and Infrastructure Services

We have now categorised our PB Towage and Fujairah Bulk Shipping businesses under a new division called "PB Energy & Infrastructure Services" to better reflect the mandate they have to provide services to governments, energy groups and construction companies for large offshore and infrastructure projects.

In 2009, the division did not deliver the financial results which we had hoped for due to difficult conditions affecting the areas in which we operate. However, we made significant strides in the expansion of our towage fleet, human resources and systems and processes during the year, and secured valuable service contracts that we believe will open the door for us to develop our business in this sector.

We anticipate continued challenges in the markets for the division in 2010, although growing demand for offshore activity in Australasia and the Middle East gives reason for optimism. We continue to believe in the longer term growth prospects for this division which operates in specialist sectors and is well positioned to capitalise on opportunities to grow when we see further and more palpable recovery in the markets.

In view of this positive outlook, the ambition for our energy and infrastructure services division is to become a major regional player and preferred operator of young, versatile offshore and towage vessels, and to grow the business significantly subject to acceptable returns on investment. With vast oil and gas and infrastructure development in Asia, Australasia and the Middle East, we see potential to build a strategic, competitive business in a market with high barriers to entry and where high quality service is required and rewarded with superior returns.

RoRo Shipping

We took delivery of our first of six RoRo newbuildings in September 2009 and she has since performed well in the North Sea under charter to the established RoRo operator Norfolk Line. Our RoRo team is focused on developing preferred employment opportunities for the remainder of our RoRo ships delivering between September 2010 and December 2011.

The RoRo market was severely depressed throughout last year, but increased freight forwarding activity in Europe in the fourth quarter of 2009 signals possible improvement ahead. Nevertheless, we expect this sector to face continued difficulties in the next two years, and so have charged to our 2009 results an impairment of US$25 million reflecting our concern about the current limited employment potential for unfixed RoRo vessels. However, we continue to have a more positive outlook for the longer term as we believe the sector is compelling due to its relatively small orderbook and ageing fleet.

Outlook

Although 2009 was not one of our most profitable years, it was an important year for reinforcing our foundations in preparation for our future development plans. A recalibration of our ambitions towards the end of 2009 has primed the Company for growth as we set out to realise our expansion goals.

We believe that the global economy and international trade have begun a slow and gradual recovery supported by strong growth in China and the rest of Asia. We cannot ignore that there is some fragility in the outlook but we see 2010 as a year of opportunity to expand our dry bulk fleet and our energy and infrastructure services business.

In Closing

Regrettably, and as announced in December 2009, Richard Hext resigned as CEO of Pacific Basin to take up a new appointment, but we are fortunate in that he has agreed to remain as a Non-executive Director of the Company.

"PB Darling" on sea trials in Halong Bay, Vietnam

"Humber Viking" nearing completion at Odense Steel Shipyard, Denmark

Our former Deputy CEO, Klaus Nyborg, has assumed the position of CEO, and Executive Director Jan Rindbo has been appointed to the new position of Chief Operating Officer. I am confident that management and strategic continuity will prevail given their years of involvement on the Board and senior management team, and I look forward to working even more closely with them as we seek to realise Pacific Basin's ambitions in the years ahead.

I am also very sad to advise that Dr. Simon Lee, Non-executive Director of the Company, passed away at the age of 82 on 18 February 2010 following a long illness. He had made an enormous contribution to the development of Pacific Basin in its early days as a private company, and we continued to benefit from his valuable guidance and tremendous support until he fell ill early last year. His presence will be dearly missed.

I conclude by thanking our diligent and talented staff and loyal customers for the commitment and support that are key to our success.

David M. Turnbull
Chairman

Hong Kong, 2 March 2010

"Mount Owen" making steady progress through rough seas off South Island, New Zealand

BUSINESS REVIEW AND OUTLOOK

"Mount Adams" in Pasajes, Spain

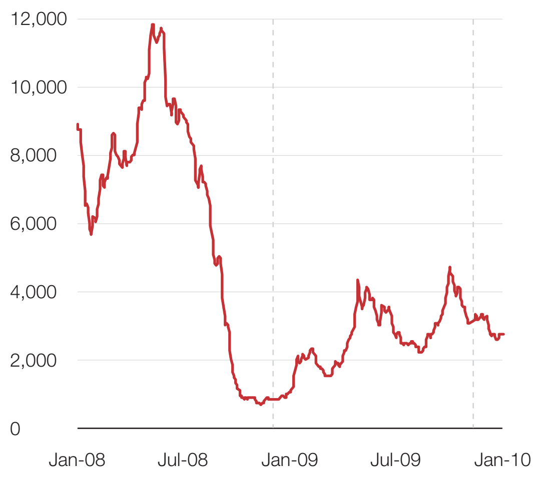
Pacific Basin Dry Bulk

Market Review

The outlook for the dry bulk market was bleak coming into 2009. The combination of economic recession and an enormous dry bulk vessel orderbook suggested major challenges for the market in the year ahead. The freight market had collapsed, ship scrapping was seen as an attractive alternative for owners of older tonnage and questions about counterparty strength permeated the market.

In actuality, the market exceeded expectations. In the second half of 2009, the world started a process of economic recovery and the supply/demand balance shifted in favour of ship owners resulting in improved trading conditions and increasing freight rates. New ship deliveries were far fewer than scheduled at the start of 2009, yet the dry bulk fleet expanded more than in any previous year, and dry bulk demand recovered more strongly than anticipated.

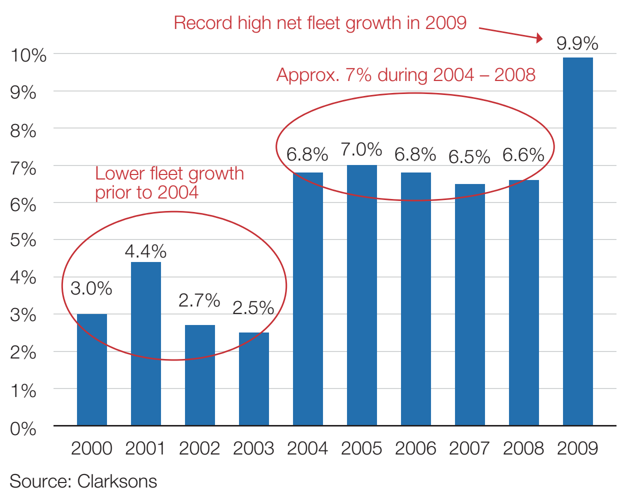
Baltic Dry Index



Source: The Baltic Exchange

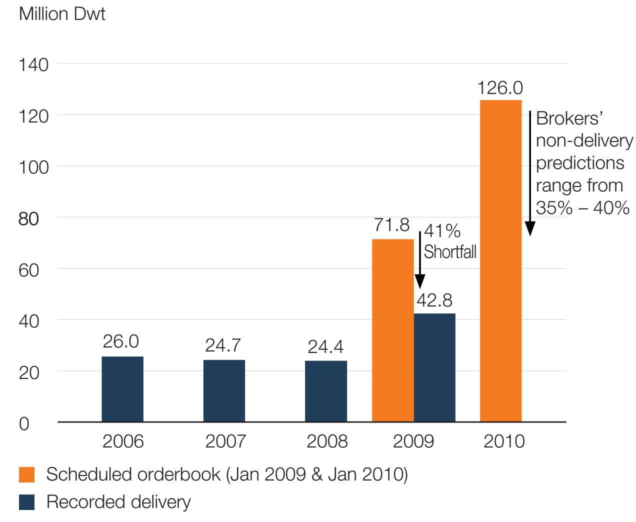
- Newbuilding deliveries accelerated dry bulk net fleet growth to a new high of 10% – significantly above the 7% level of the previous five years.
- However, recorded deliveries over the year fell short of the scheduled orderbook at the start of 2009 by over 40%. This was due to a number of factors including: several yards' inability to deliver on time; ineffective orders stemming from unexercised options or difficulties in securing finance or refund guarantees for contracts booked in previous years; and some new yards that failed to become operational.
- Freight rates recovered strongly from a very low base over the first quarter and then increased less emphatically, albeit erratically, throughout the balance of the year. This was especially true during the second half despite the collapse of ship scrapping and the acceleration of newbuilding deliveries to a record 27 million dwt on for the half year.
- Activity is returning to a sales and purchase market that had been stagnant for most of the year, giving greater visibility to vessel values. After 15 months, Clarksons resumed its publication of ship values in January 2010 showing an estimated US$23 million for a benchmark five-year old 28,000 dwt handysize vessel. This represents a US$1 million increase over R.S. Platou's estimate at the time of our Interim Report in August 2009.

Dry Bulk Net Fleet Expansion

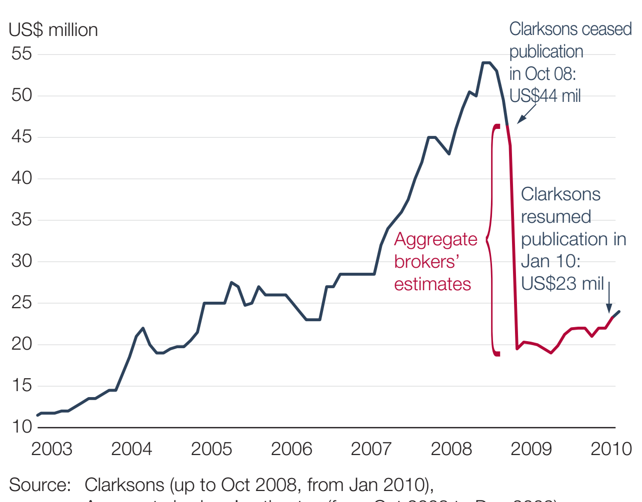


Source: Clarksons

Dry Bulk Deliveries & Scheduled Orderbook

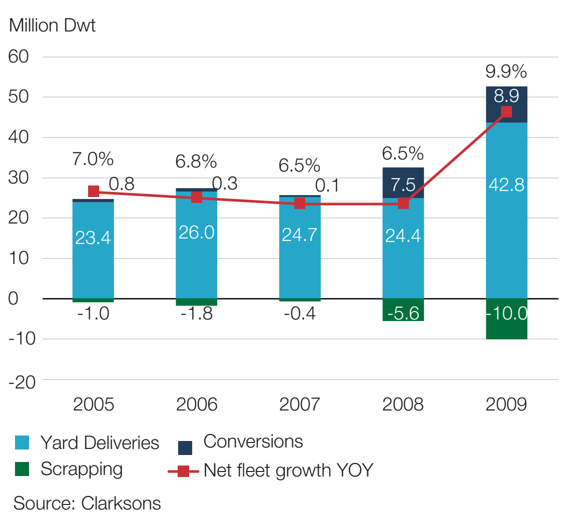


5 Year Old 28,000 Dwt Vessel Values



Source: Clarksons (up to Oct 2008, from Jan 2010), Aggregate brokers' estimates (from Oct 2008 to Dec 2009)

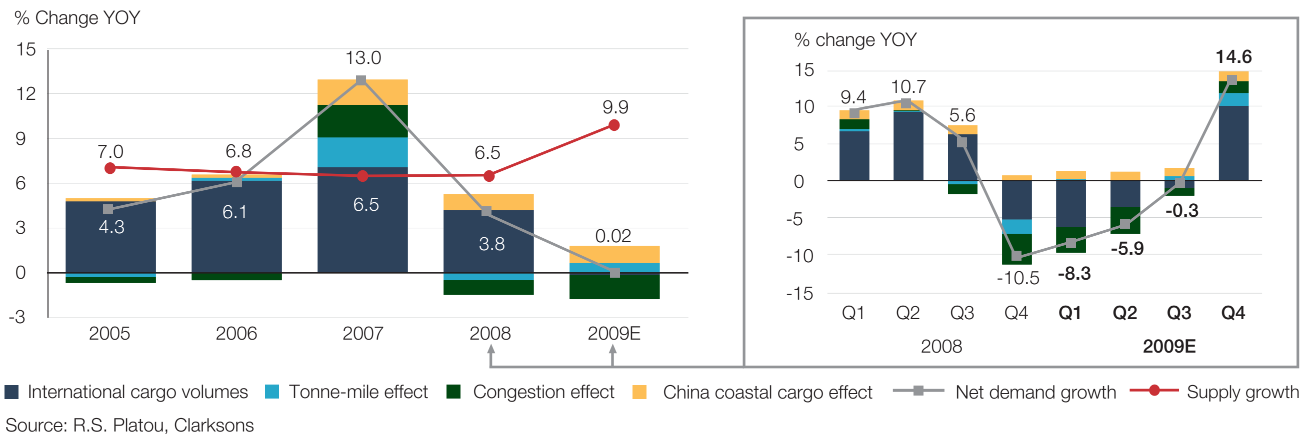
Global Dry Bulk Fleet Development



Source: Clarksons

- The unexpectedly strong freight market improvement in 2009 cannot easily be explained by the changes in dry bulk market fundamentals that occurred during the year. According to Clarksons, the dry bulk fleet expanded by 10% year on year whilst R.S. Platou estimates demand to have experienced zero net growth year on year – a combination that under more normal circumstances would place downward pressure on freight rates throughout the year.
- The explanation lies in the dysfunctional nature of the market at the start of 2009 following the extraordinary market behaviour at the end of 2008. The dramatic change in freight market sentiment in 2009 is indicative of a sharp improvement from that exceptionally low starting point culminating in an estimated 14.6% year on year change in demand in the fourth quarter of 2009.

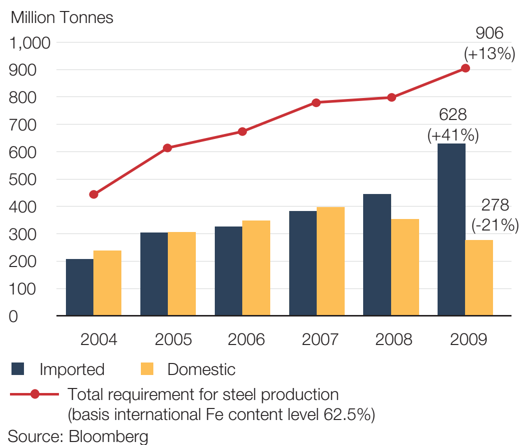
Dry Bulk Fleet Demand & Supply Development 2005 – 2009



Source: R.S. Platou, Clarksons

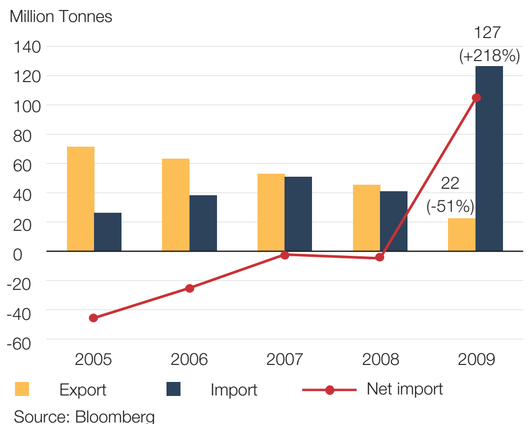
- China's enormous commodity import volumes reflect its unmatched influence on the dry bulk market in 2009 when iron ore and coal imports increased 41% and 218% respectively year on year. However, its influence on the demand-side environment is not limited to absolute import volumes:
  - China's decision on where to import commodities from significantly impacts overall tonne-mile demand;
  - China's dry bulk requirements continue to strain the capacity of land based infrastructure, resulting in port congestion and waiting ships which are temporarily unavailable to transport cargoes in the market; and
  - China's domestic coastal dry bulk volumes (information on which is imprecise and not included in international trade data) reportedly grew by some 100 million tonnes, or 16%, per year from 2006 to 2008 and, by R.S. Platou estimates, accounted for up to 1.2% year on year global dry bulk shipping growth in 2009.

Chinese Iron Ore Sourcing for Steel Production



Source: Bloomberg

China is a Net Importer of Coal

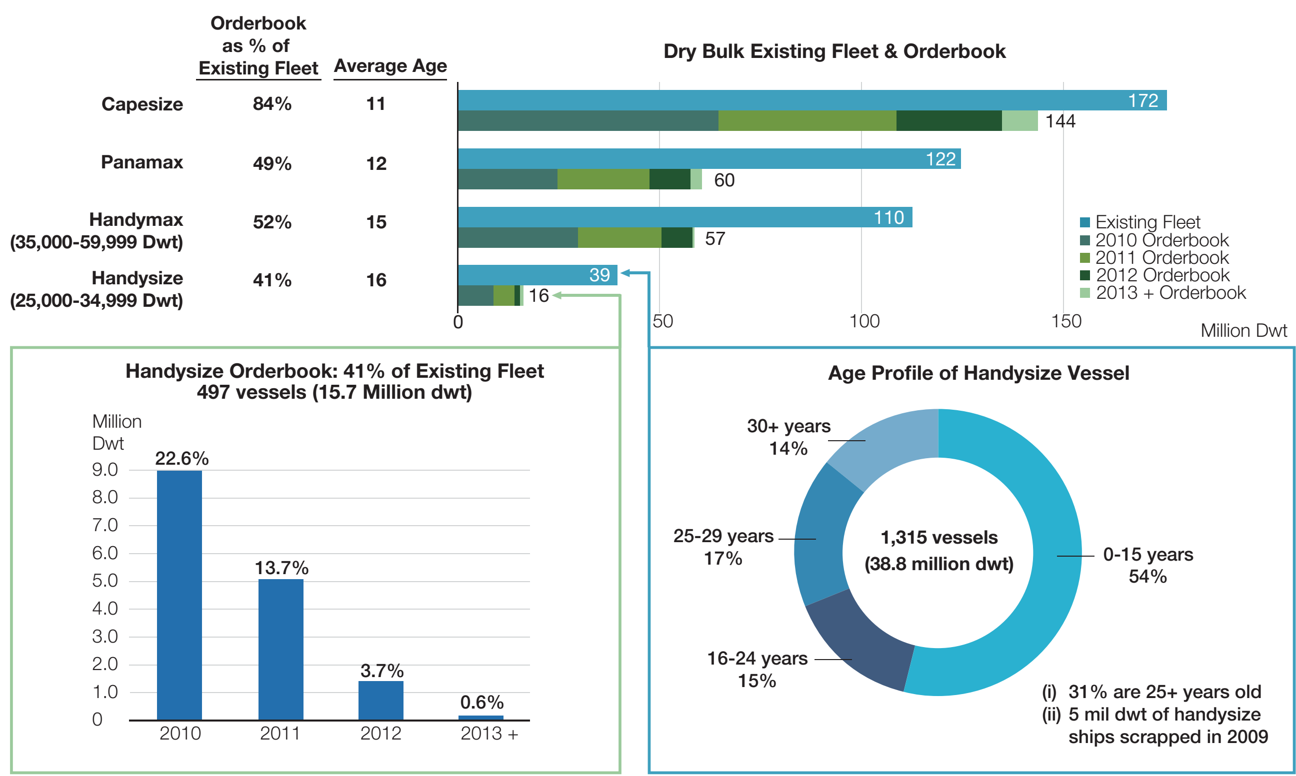


Source: Bloomberg

- Looking ahead, we take a neutral outlook for the dry bulk market in 2010 reflecting our view that strong but fluctuating demand combined with unpredictable but still significant supply growth in an elastic market will likely result in a continued firm but volatile market over the year. Economic recovery remains fragile, making it difficult to predict whether demand will be sufficient to absorb the expansion in dry bulk ship supply in 2010 (influenced by the orderbook as illustrated below).

- Longer term, we remain positive on the prospects for dry bulk after 2011 due to strong demand from the continued industrialisation of China and the rest of Asia and recovery from the economic crisis of OECD countries coupled with more tempered supply growth.

Dry Bulk Orderbook Analysis



Source: Clarksons data as at 1 Feb 2010

Business Review

Overview

Our cornerstone Pacific Basin Dry Bulk division operates one of the world's largest and most modern fleets of uniform handysize and handymax ships, which enables us to offer our customers a reliable service with a high degree of flexibility in routes and timing.

We are committed to ensuring the highest levels of service performance which is made possible by:

- our modern fleet of owned and long term chartered vessels of flexible design suited to the transportation of a broad range of cargoes;
- the homogeneous nature of our fleet of interchangeable ships allowing scheduling flexibility to meet customer requirements;
- an experienced in-house technical ship management team to support our effort to provide reliable, quality ships to our customers; and
- our extensive global network of Pacific Basin offices bringing our professional, dedicated chartering and operations staff closer to our customers to better understand their needs.

Baltic Handysize Index (BHSI) versus Baltic Supramax Index (BSI)

Source: The Baltic Exchange

We provide our customers with a variety of chartering options including, contracts of affreightment ("COAs"), spot market fixtures and, occasionally, period time charters to meet their transportation needs. In addition, we also manage our market exposure through the limited use of derivative instruments such as forward freight agreements ("FFAs") and bunker hedges.

With an excellent performance track record in the handysize sector supported by one of the strongest balance sheets in dry bulk shipping, Pacific Basin stands out as a preferred, blue-chip counterparty for cargo customers and tonnage providers in an otherwise heavily fragmented sector dominated by many smaller owners and operators.

Performance in 2009

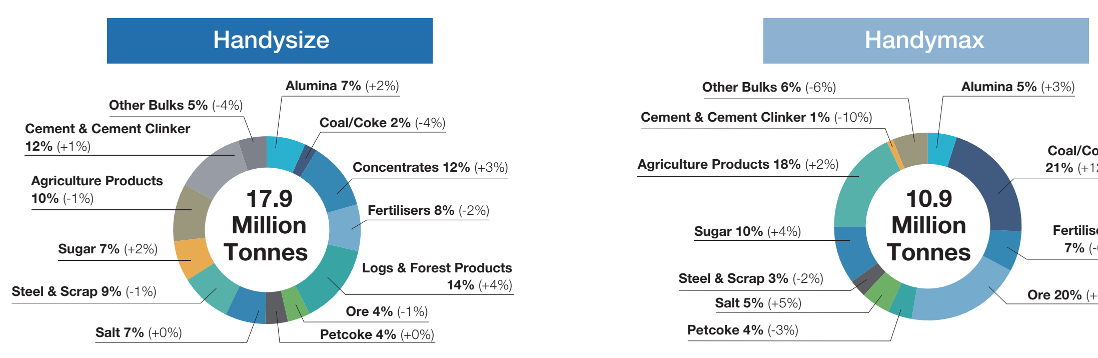
- Pacific Basin Dry Bulk's fleet of handysize and handymax vessels performed well against the backdrop of a volatile market that started the year at a near historic low level.

Pacific Basin Dry Bulk Fleet

	Handysize		Handymax	
	2009	2008	**2009**	2008
Net profit (US$)	**124 million**	332 million	**14 million**	36 million
Daily charter rates earned (US$)	**14,500**	29,600	**19,490**	44,610
Daily vessel operating costs (US$)	**9,690**	14,960	**18,120**	40,070
Return on net assets	**28%**	86%	**64%**	52%
Indices (US$ net, average BHSI/BSI)	**10,775**	27,818	**16,471**	39,468
Cargo volume (Million tonnes)	**17.9**	19.6	**10.9**	11.7
Main cargoes	**logs & forest products, grain & agriculture products, metal concentrates**		**coal/coke, ore, grain & agriculture products**	

Pacific Basin Dry Bulk Cargo Volume

Total Volume: 28.8 Million Tonnes



Showing % change against 2008

- We operated an average of 103 dry bulk ships during the year (2008: 101 ships)
- The division made a net profit of US$138 million (2008: US$368 million) and a return on net assets of 29% (2008: 81%).
- Our contracts performed as expected in 2009 and we experienced no counterparty defaults.
- Our fleet remains employed worldwide carrying a mix of contract and spot cargoes from a broad, diversified customer base that primarily comprises industrial companies in the mining, agricultural, and construction sectors.
- Through this employment mix we secure a relatively high degree of downside protection in case of falling freight rates whilst retaining significant upside in a rising market. This model enabled us to achieve superior earnings compared to average market levels in a volatile and challenging period for the dry bulk sector.
- Efforts to save costs across the Group reduced total administrative expenses by 14% and contributed to a 35% reduction in our handysize fleet daily breakeven costs from US$14,960 in 2008 to US$9,690 in 2009.
- In line with our strategy to secure forward cargo cover, we have so far covered 64% of our 2010 contracted combined dry bulk ship revenue days, and we currently expect the majority of our uncovered 2010 revenue days will generate revenue from the spot market. We are also focused on building our forward cargo book for 2011 and beyond.

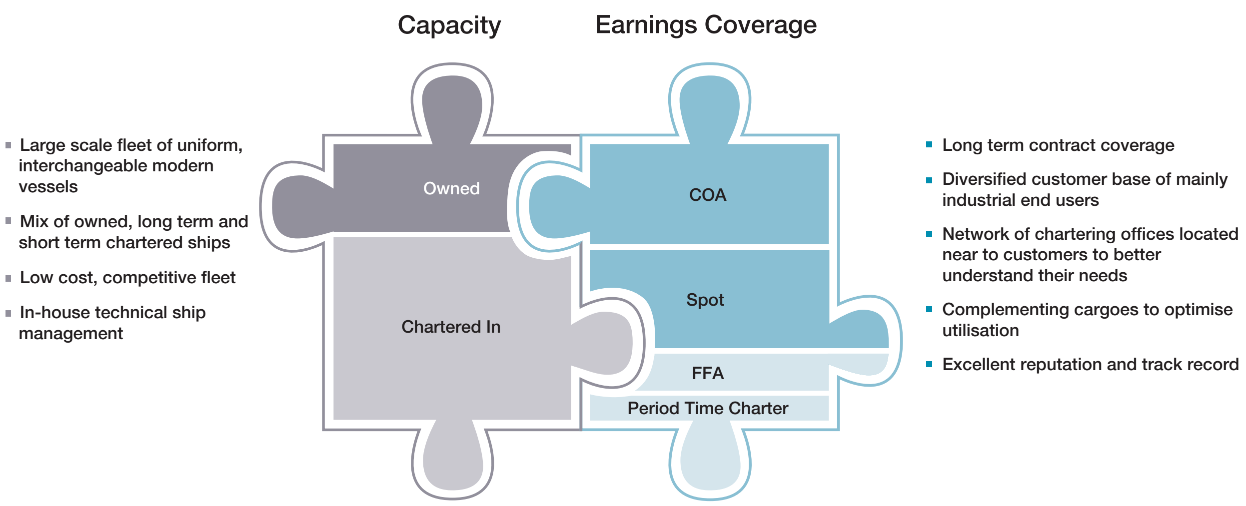
		Handysize		Handymax	
	Unit	**FY 2009**	FY 2010	**FY 2009**	FY 2010
Vessel Activity Summary (as at 22 February 2010)					
Cargo Commitments					
Revenue days	days	**26,100**	12,490	**10,640**	4,600
Net paper contracts	days	**–**	860	**–**	(310)
Equivalent revenue days	days	**26,100**	13,350	**10,640**	4,290
Daily TCE	US$	**14,500**	14,290	**19,490**	24,220
Ship Commitments					
Revenue days	days	**26,100**	22,630	**10,640**	5,280
Net Position					
Cargo as % of ship commitments	%	**100%**	59%	**100%**	81%
FFA Activity Summary					
FFA paper sold	days	**2,810**	1,000	**2,250**	1,790
FFA paper bought	days	**(350)**	(30)	**(1,870)**	(2,120)
Net realised paper exposure	days	**(2,460)**	(110)	**(380)**	20
Net FFA paper sold/(bought)	days	**–**	860	**–**	(310)

Fleet Operations

We take pride in the quality of our fleet which is managed in-house by Pacific Basin's technical operations team. Through this hands-on approach to ship management, we are able to pay careful attention to the maintenance of our vessels and the selection and continued training of quality seafarers. We consider this to be an important ingredient in the provision of world-class service to our customers.

The safety of our seafarers, vessels, cargoes and the environment is of paramount concern to Pacific Basin. Our safety record has again been very good in 2009. Unscheduled vessel downtime due to technical reasons – another key benchmark for our fleet of owned ships – was also kept to a minimum with an average of only 1.3 off-hire days per vessel during the year.

Pacific Basin Dry Bulk Business Model



"Hawke Bay" loading logs in New Zealand

Outlook

The following market-related factors are expected to have most influence on the dry bulk sector in 2010:

Positive Factors

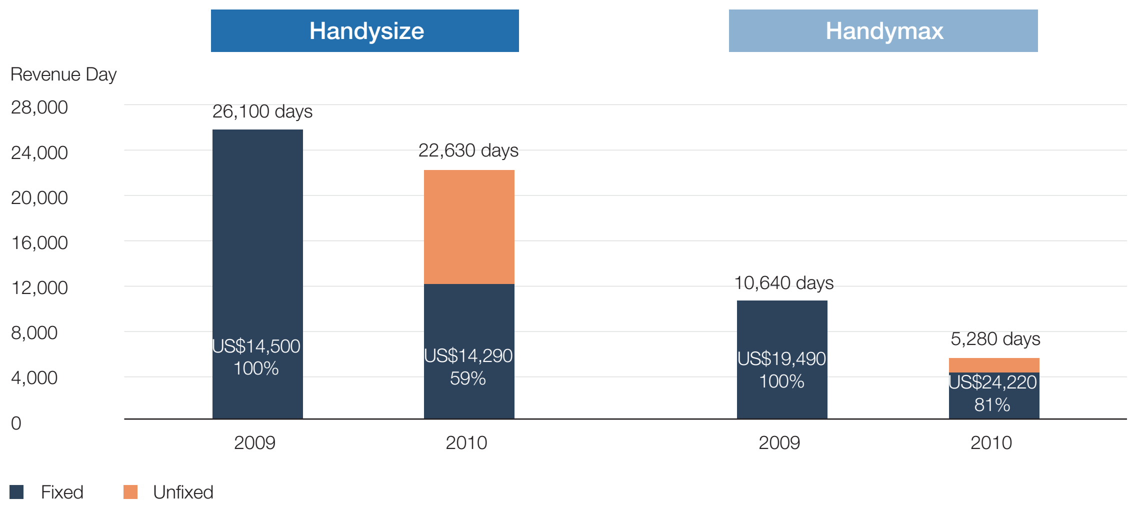
- Continued global economic recovery, albeit slow and fragile, leading to increased commodity demand, further restocking, and therefore increased seaborne trade volumes
- Strong growth in developing countries, especially China
- China's increasing dependence on imported commodities
- Recovery in construction and industrial production resulting in increased world steel output and demand for iron ore shipments
- Increasing congestion as fast-growing dry bulk trade stretches shore based infrastructure
- Continued slippage and non-realisation of scheduled 2010 newbuilding deliveries leading to less than scheduled new ship supply

Negative Factors

- Some unwinding of economic stimulus, especially in China, resulting in lower growth
- Slow and hesitant growth in developed countries
- Orderbook for 2010 remains enormous with accelerating newbuilding deliveries over the year
- China is the major importer of raw materials and benefits from cheap freight from an oversupply of ships, giving China incentive to continue supporting its shipbuilding industry
- Increasing commodity prices, especially for iron ore and coal, favouring domestic production over import

Weighing these factors, we have adjusted our dry bulk market outlook from a negative to a neutral view for 2010. We have therefore resumed a measured expansion of our fleet, and will continue to be on the look out for further acquisition and long term charter opportunities. However, our key priority is to maintain a cost-competitive fleet and so we will remain particularly mindful of our breakeven cost when evaluating acquisition opportunities. We will also focus on building our forward cargo book for 2011 and beyond whilst employing the majority of our uncovered 2010 capacity in the spot market. Our current levels of contract cover for 2010 are illustrated below.

Contract Cover and Daily TCE



■ Fixed ■ Unfixed

As at 22 February 2010

PB Energy & Infrastructure Services

Given the focus and nature of our towage and infrastructure businesses, we have categorised these under a single new business division called "Energy and Infrastructure Services", encompassing primarily:

- PB Towage – our towage logistics business which engages in:
  - offshore support services for construction and energy projects (mainly through our PB Sea-Tow brand); and
  - harbour towage (under the banner of PB Towage Australia)
- Fujairah Bulk Shipping L. L. C. ("FBSL") – our infrastructure joint venture in the United Arab Emirates

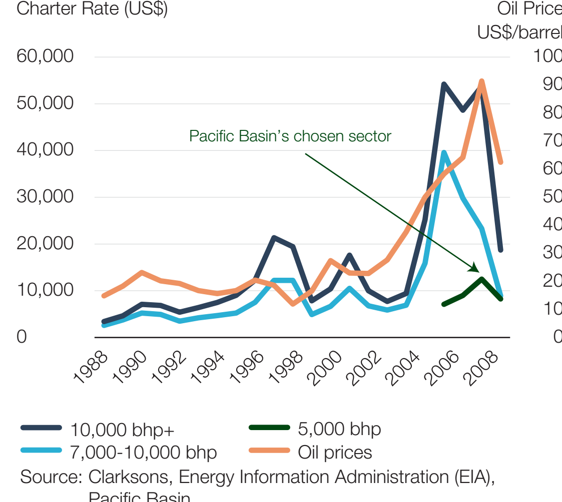
Market Review

Towage is a more fragmented sector than dry bulk, with almost 14,000 vessels of very different size, type and age (average 21 years) deployed in different ways around the world. Barriers to entry, cabotage regulations, specific market requirements and high redeployment costs impact supply and demand on a regional level.

Offshore towage market characteristics:

- The main demand side driver for offshore towage services is the price of oil and gas, which impacts offshore exploration and production activity.
- The world fleet of medium to large size, sophisticated vessels operating in deepwater oil and gas fields has expanded significantly since 2006 driven by increasing oil prices. The oil price collapse in 2008 and 2009 resulted in weakened demand and a steep decline in the charter market in 2009.
- The market in the Middle East is relatively open to competition and oil and gas output is highly sensitive to demand. As a result, decreasing oil prices had an immediate downward impact on oil production and offshore requirements.
- Our main market in Australia has been more resilient with new long term energy projects in the region driving demand for offshore services. In addition, Australia is a relatively closed market due to its cabotage laws, labour regulations, environmental legislation and the requirement for added value technical and operational skills (such as specialised cargo handling ability), which together limit competition and volatility in the local market and create opportunities for high-skilled and specialised niche players.

Charter Rate for Towage Vessels versus Oil Price



Harbour towage market characteristics:

- Harbour towage activity is closely linked to global economic conditions which drive seaborne trade volumes. The economic crisis of 2008 and 2009 negatively affected shipping traffic and thus demand for harbour towage services.
- Ship movements in container ports serviced by PB Towage Australia fell approximately 20% in 2009 generally limiting the ability to increase service contract tariffs above 2008 levels.
- Towage activity in bulk ports was less affected than in container ports due to strong commodity exports – mainly to China – despite the economic downturn.

Business Review

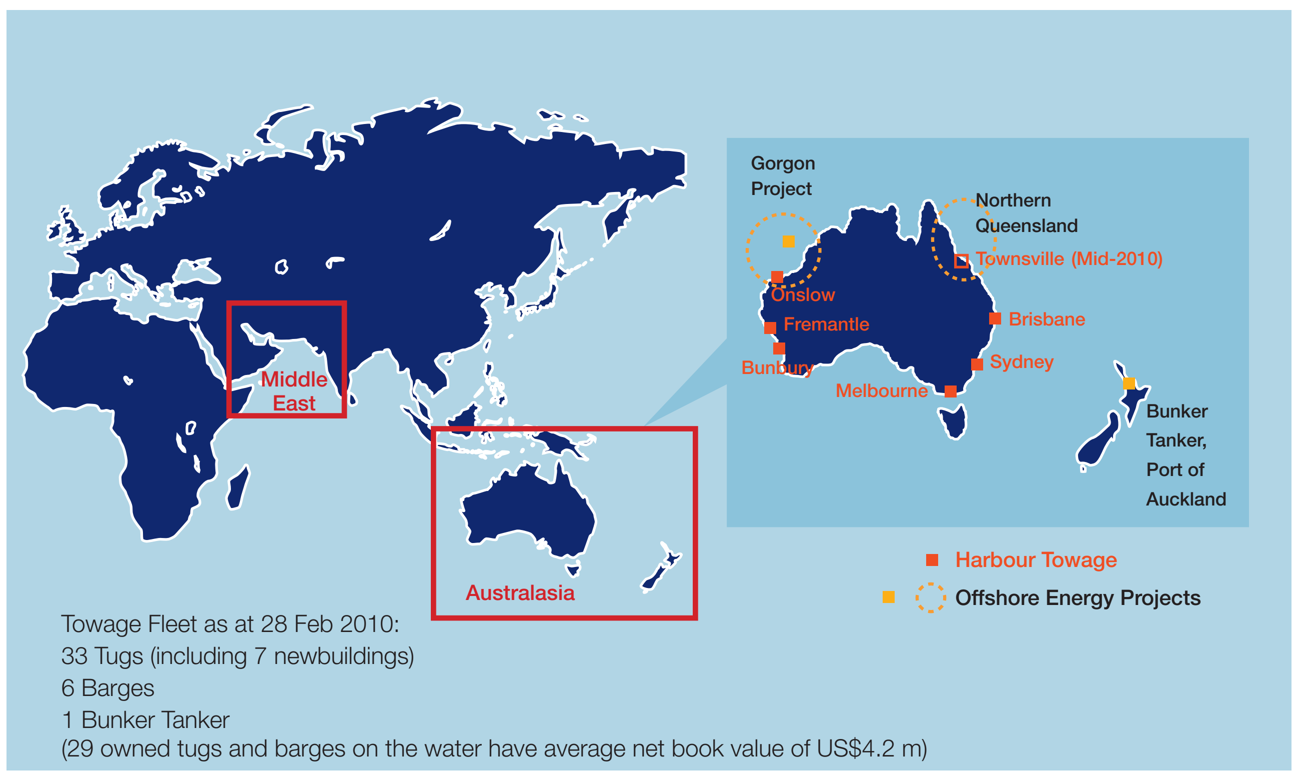
Overview

PB Towage expanded its fleet and business in 2009 and, in particular, strengthened its position in the Australian towage market through its PB Sea-Tow and PB Towage Australia brands. We have focused on premium markets requiring high quality and added value services and those demonstrating greater stability. As such, we continued to pursue opportunities to provide tug and barge support especially to the offshore sector in Australasia, the Middle East and India.

Performance in 2009

- The PB Energy & Infrastructure Services division made a net profit in 2009 of US$8.2 million (2008: loss of US$14.4 million relating mainly to goodwill write-offs) and a return on net assets of 4%.
- Our PB Towage business successfully expanded its profile and market position in 2009 – particularly in Australasia – although results were somewhat disappointing due to challenging trading conditions.
- PB Towage made a net profit in 2009 of US$1.0 million (2008: loss of US$16.0 million relating mainly to goodwill write-offs) which included a prudent write-down of US$1.4 million representing in full an amount currently under dispute.

PB Towage Geographical Focus



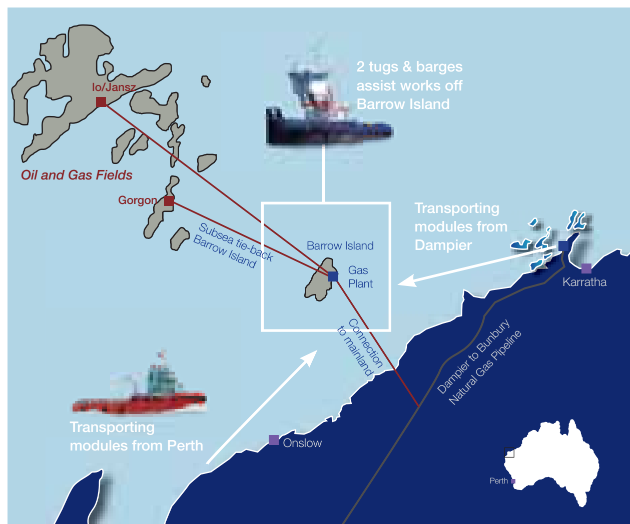
Offshore Support Services

- Our offshore towage businesses comprising PB Sea-Tow based in New Zealand and PB Towage Middle East in the United Arab Emirates are mainly engaged in energy and construction logistics work in Western Australia and the Arabian Gulf.
- In May 2009, PB Towage formed a joint venture called Offshore Marine Services Alliance (OMSA) and secured a A$350 million contract to provide towage logistics services to support the Gorgon Project, a major new LNG gas field project offshore Western Australia developed by a consortium of oil majors and operated by Chevron.

Harbour Towage Services

- Our Australian harbour towage business, PB Towage Australia, maintained its market share in container ports, and secured new long term exclusive service licenses at three bulk ports which are expected to provide our business with greater resilience to market downturns.
- In June 2009, we acquired the outstanding minority interests in PB Towage Australia, thus increasing our holding in the company to 100%.

Gorgon Project Development Concept



Source: Gorgon Project Website, Pacific Basin

1 "Sea-Tow 35" transporting modules for the Black Tip LNG project
2 "PB Daintree" will be deployed in Australia
3 "Botany" operating in Brisbane
4 "PB Gibson" deployed offshore Western Australia

Fleet Operations

During the year, PB Towage established a central engineering office in Perth, Western Australia, which is responsible for the provision of technical management support for our expanding towage fleet across all regions, and to ensure that systems are introduced to more readily meet our customers' exacting requirements.

We dry-docked several vessels in 2009 and undertook a number of vessel upgrades in preparation for specialised employment requiring project-specific capabilities.

Fujairah Bulk Shipping

- Fujairah Bulk Shipping L.L.C. ("FBSL"), our joint venture with the Government of Fujairah in the United Arab Emirates, continued to perform well in 2009.

- In a difficult year, FBSL made a gratifying contribution of US$6.3 million (2008: US$0.3 million) to Pacific Basin's results and a return on net assets of 10.4% after netting off final payments associated with earn-out arrangements that expired at the end of 2009.

- 2009 was characterised by very contrasting stories for the company:

  The rock and aggregate export business, which had accounted for the majority of FBSL's activity until March 2009, faced cancelled or suspended export related projects – casualties of the global economic crisis. This business activity has therefore been successfully scaled down.

  However, excellent progress has been made on the Fujairah Northern Land Reclamation which requires 54 million tonnes of rock and aggregate for the development of an industrial site in Fujairah and is ahead of schedule.

- With the construction of the Abu Dhabi Crude Oil Pipeline to Fujairah and a number of other upcoming infrastructure projects in the region, FBSL is well positioned for growth.

1 The 2 km^2 Fujairah Northern Land Reclamation takes form
2 + 3 FBSL's fleet of trucks

Outlook

The following market-related factors are expected to have most influence on the offshore and harbour towage and infrastructure services sectors in 2010:

Positive Factors

- Gradual, albeit slow, global economic recovery to stimulate trade and therefore drive vessel movements in Australian ports
- Continued minerals demand growth expected to drive potential for exclusive port service licenses thus providing greater revenue stability
- Local cabotage, labour and environmental regulations and requirement for value-added capabilities continue to act as high barriers to entry
- Increasing oil and energy prices leading to more offshore projects and related infrastructure development activities
- Resumption of infrastructure and offshore projects in the Middle East following recovery from the Dubai debt crisis
- Orderbook for new tugs expected to become less onerous following a reduction in orders, and more older vessels will likely be scrapped

Negative Factors

- Modest trade growth means container-related harbour towage market will still be relatively weak

"PB Komata" in Hong Kong prior to deployment on the Gorgon Project

Our outlook for our offshore energy services activity in 2010 is positive due to markedly strengthening demand for towage support services in Australia and the Middle East arising from potential new oil and gas development projects scheduled to commence later this year.

We expect a slow, volatile recovery to pose a continued challenge for our harbour towage business, but aim to lessen our dependence on the sluggish container industry by expanding into mainly bulk-related ports offering exclusive licence arrangements.

We are mindful of the need for PB Towage to build scale, realise synergies and optimise systems and processes before it can reap the full advantage of its position in the sector.

FBSL is poised to benefit from a number of new infrastructure projects in the Middle East and so we expect to see good further progress for this business.

Weighing these factors, we consider PB Energy & Infrastructure Services to be well positioned to grow on the back of increasing activity and new opportunities in Australia and the Middle East, and we intend to expand the business and acquire further assets against specific, high-return projects.

PB RoRo

Market Review

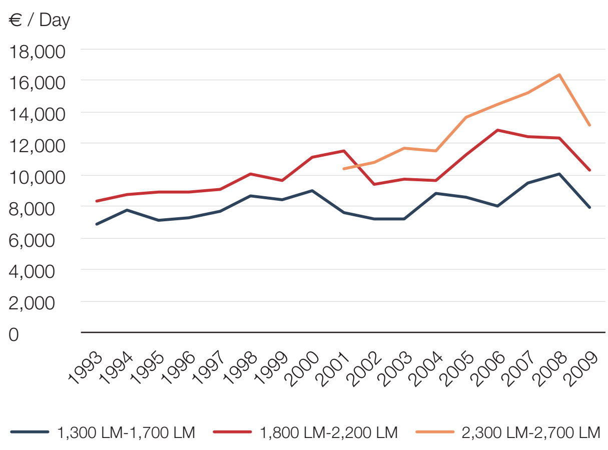
- The RoRo sector faced challenging conditions in 2009 brought on by the financial crisis and resulting recession in its core European market. Underlying trailer demand in Europe fell sharply in late 2008 but stabilised over 2009 at approximately 20-25% below pre-recession levels. This has inevitably led to weak demand for RoRo tonnage and therefore reduced charter rates. Maersk Broker data shows the one year moving average time charter rate for large RoRo vessels to have fallen by approximately 35% since the onset of the recession.

- The lack of representative sale transactions and the varied specifications of vessels make a valuation of RoRo vessels very difficult but, by brokers' estimations, values for large, modern vessels have declined between 10% and 15% since we contracted our Odense ships in early 2008 – significantly less than the fall in values in other main shipping segments.

- Growth in the major European economies has resumed – albeit hesitantly – since the third quarter of 2009, and forwarders across Europe are experiencing increased traffic. The European Freight Forwarding Index produced by Danske Bank from a regular survey of European forwarders substantiates this and forecasts continued recovery in trade volumes in the first half of 2010.

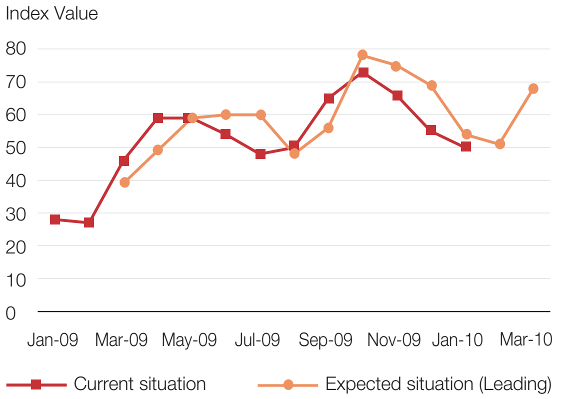
- On the supply side, the underlying statistics for the RoRo sector are favourable. The orderbook remains small at 16% and the average age of the RoRo fleet (21 years) is older than that of all other main cargo ship sectors. 44% of RoRo capacity in vessels over 800 lane meters is now aged 25 years or older and 30% is over 30 years old. The picture is slightly less favourable for the 2,600+ lane meter subsector in which Pacific Basin competes: 36% of the capacity is over 25 years old, matched by an orderbook of 36% of the existing fleet.

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



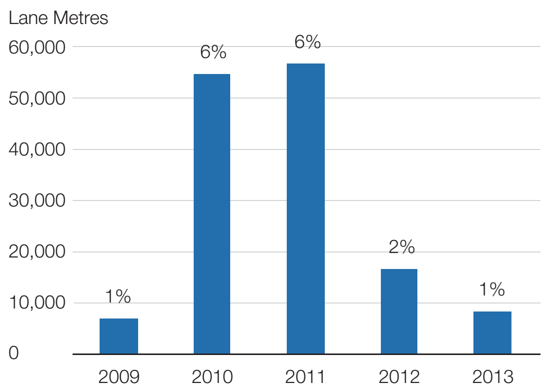
Source: Maersk Broker, data as at Jan 2010

European Freight Forwarding Index



Index values over 50 indicate a positive trend
Source: Danske Bank

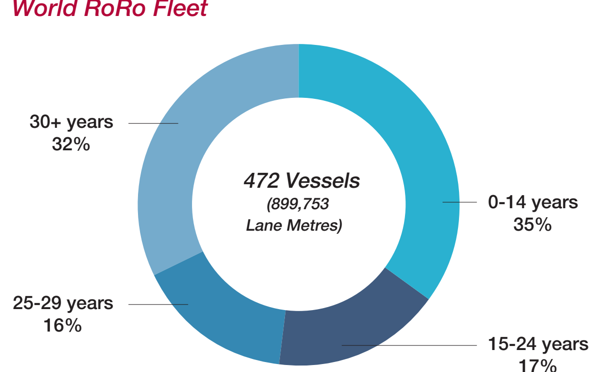
World RoRo Orderbook: 16% of Existing Fleet
45 Vessels (143,408 Lane Metres)



Source: Maersk Broker, data as at Jan 2010

- Encouragingly, practically no newbuilding orders have been placed in the past 12 months, and a number of larger, old vessels are now being scrapped, including some previously deployed in the North European market.
- Maersk Broker's analysis of the orderbook and likely rate of scrapping suggests the size of the world RoRo fleet will start to contract in 2010.

World RoRo Fleet



Source: Maersk Broker, data as at Jan 2010

Business Review

Overview

We invested in six large freight RoRo newbuildings in early 2008 with the aim of becoming a tonnage supplier to major European freight service operators, and our vessels are specifically designed for their trades which favour:

- relatively high speed
- low fuel consumption
- optimal deck heights
- wide fixed ramps
- high degree of manoeuvrability

To date, only one of our RoRo newbuildings has delivered and entered service. The remainder are scheduled to deliver late in 2010 and 2011.

Performance in 2009

The "Humber Viking", our first newbuilding from Odense Steel Shipyard in Denmark, delivered in September and immediately commenced trading between ports in Holland and the United Kingdom under a three-year timecharter to Norfolk Line.

As reported in June 2009, we negotiated the deferred delivery of our remaining three newbuildings from Odense Steel Shipyard into 2011 due to the prevailing weakness in the RoRo market. As part of this agreement we made early payment of 10% of the contract price, but benefit from a corresponding reduction in – and deferral of – the final payments. The total consideration for these ships therefore remains unchanged.

Our two chartered-in Korean-built RoRo newbuildings, for which we hold purchase options, are currently scheduled to deliver in September and November 2010 respectively and thus our exposure to the likely weak market in 2010 is limited.

The RoRo division made a net profit in 2009 of US$0.1 million. In addition, the Group incurred a US$25 million impairment reflecting our concern about the ability to deploy the vessels profitably in 2010 and 2011.

Fleet Operations

Technical, marine and crew management of our RoRo fleet are provided by Meridian Marine Management, our joint venture specialist ship management company in the United Kingdom. Meridian is also responsible for the technical supervision of our RoRo newbuilding projects. The "Humber Viking" is operating well, with technical running costs to date below budget levels.

Outlook

The following market-related factors are expected to have most influence on the large RoRo sector in 2010:

Positive Factors

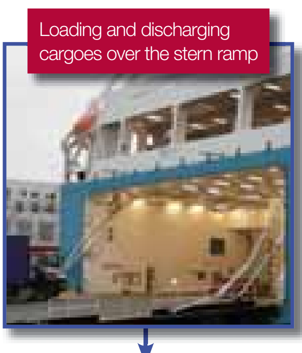
- Global and in particular European economic recovery, whilst slow, is expected to support modest growth in trailer volumes and therefore tonne-mile demand for short-sea RoRo trades
- Basic demand recovery combined with increasing environmental regulation and initiatives driving the trend towards use of larger, more fuel efficient RoRo tonnage
- An ageing RoRo fleet is expected to see continued scrapping of capacity in the coming years
- The orderbook beyond 2010 is expected to look increasingly favourable following cessation of newbuilding orders in 2009

Negative Factors

- A significant number of large RoRo newbuildings are scheduled to deliver in 2010 and 2011
- RoRo operators are suffering thus limiting employment potential
- Indebtedness of UK economy (serviced by a significant proportion of world RoRo fleet) affecting customer and industrial demand would limit the improvement in trailer traffic volumes

Overall, we expect a challenging but only moderately improving trading environment for RoRos in 2010, assuming slow recovery in European trade. However, we remain positive for the long term with the revival of European economic and trade growth, tighter supply, and continued political and social pressure to move freight from road to sea. We are confident that our vessels will prove increasingly attractive to charterers as the European economy recovers. We are actively exploring a number of employment opportunities for our planned fleet within and outside of Europe. In the longer term, we expect to see opportunities for RoRo vessels in the rapidly expanding Asian economies and elsewhere. We do not anticipate investing in any further RoRo ships until our existing orderbook has been profitably employed.

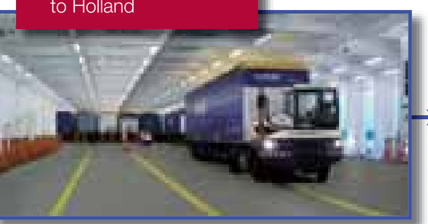
Loading and discharging cargoes over the stern ramp

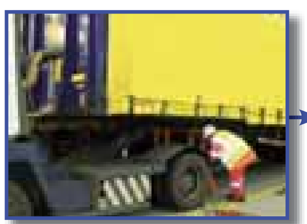


Our first RoRo vessel has been chartered to Norfolk Line Shipping and is now sailing between Holland and the UK

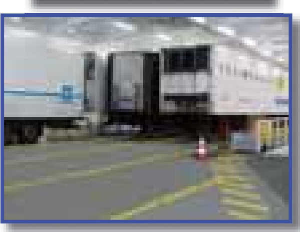
A wide range of goods on wheeled trailers.
Examples:

- Chilled vegetables from Holland to the UK
- Chemicals from the UK to Holland





Only the trailers remain on board while the trucks' head units and drivers leave the ship



"Mount Fisher" with tug escort in New Zealand

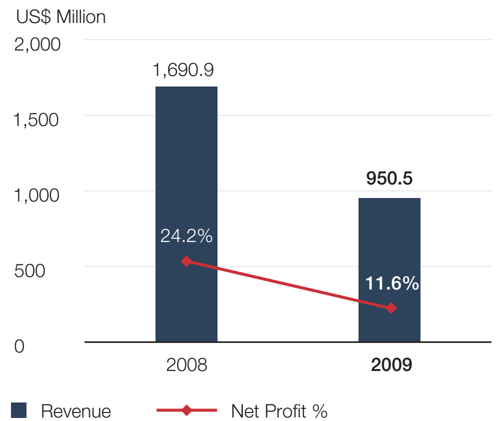
Consolidated Group Performance

The Group's business results are influenced by many factors. The key drivers that management focuses on to assess the performance of our businesses are revenue growth, direct costs controls, segment net profit, profit attributable to shareholders and return on average equity.

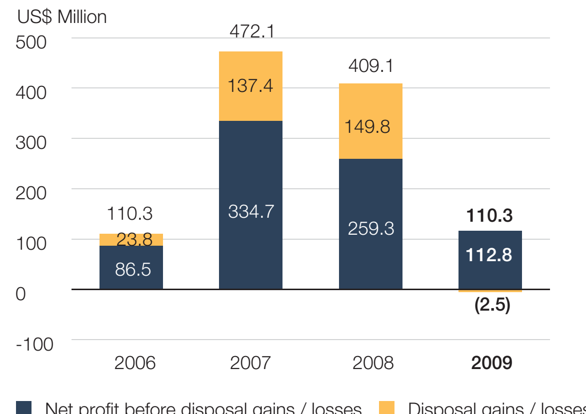
US$ Million	**2009**	2008	Change
Revenue	**950.5**	1,690.9	-44%
Direct costs	**(797.7)**	(1,332.3)	-40%
Gross profit	**152.8**	358.6	-56%
Segment net profit	**141.9**	311.5	-53%
Underlying profit	**115.8**	320.7	-64%
Profit attributable to shareholders	**110.3**	408.8	-73%
Net profit margin	**12%**	24%	-12%
Return on average equity (%)	**8%**	35%	-27%

Profit was down mainly due to a decrease in daily charter rates of the dry bulk vessels, balanced only in part by lower blended vessel daily operating costs.

Group Revenue versus Net Profit Margin



Group Net Profit



Segment net profit and underlying profit can be reconciled to profit attributable to shareholders as follows:

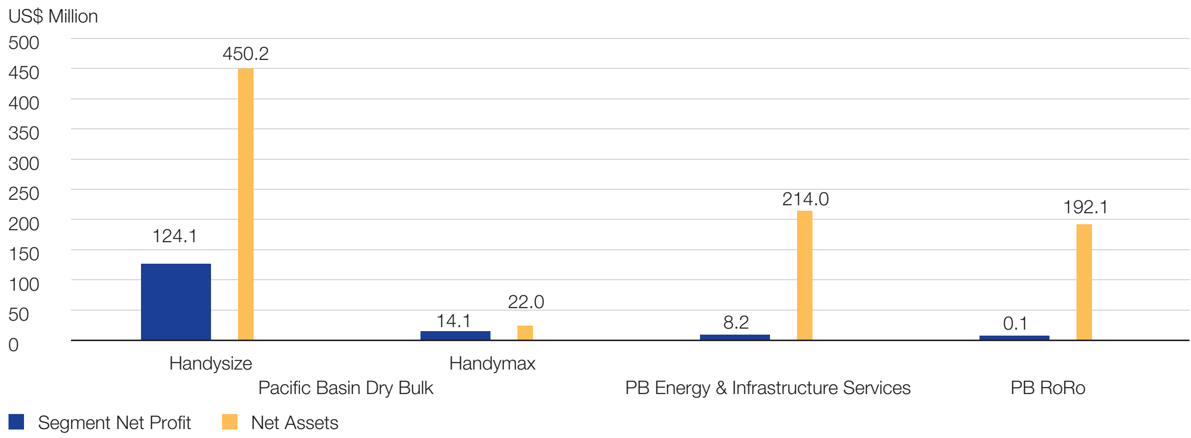
US$ Million	2009	2008
Segment net profit	**141.9**	311.5
Treasury	**(13.8)**	21.0
Non direct general and administrative expenses	**(12.3)**	(11.8)
Underlying profit	**115.8**	320.7
Vessel impairment charges – RoRo/Dry Bulk	**(25.0)**	(19.5)
Unrealised derivative (expenses)/income	**(4.5)**	6.9
Net dry bulk vessel disposal (losses)/gains	**(1.2)**	154.6
Future onerous contracts – net provision write-back/(provision)	**25.2**	(53.9)
Profit attributable to shareholders	**110.3**	408.8

Segments Review

2009 sees the adoption of the new accounting standard HKFRS 8 "Operating Segments", which provides a clearer understanding of the Group's performance based upon management's own internal analysis.

The Group derives its revenue primarily from the provision of shipping related services which management analyses under three reporting segments: Pacific Basin Dry Bulk (further split into handysize and handymax); the newly established PB Energy & Infrastructure Services (further split into PB Towage, Fujairah Bulk Shipping ("FBSL") and PacMarine services ("PacMarine")); and PB RoRo. Pacific Basin Dry Bulk continues to dominate the Group's activities.

Segment Net Profit versus Net Assets

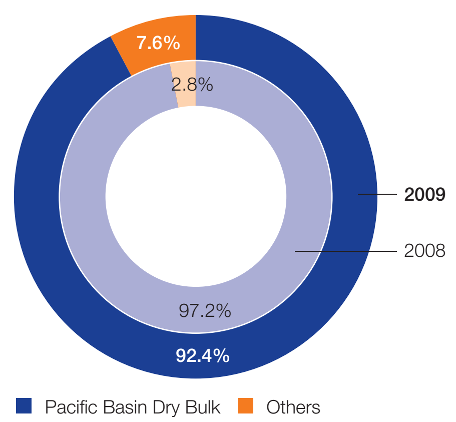


The following pages provide further analysis of the Group results with a review of segment gross profit and other financial information.

Pacific Basin Dry Bulk Segment Net Profit

Income

Pacific Basin Dry Bulk revenue as a percentage of total segment revenue



The Group's dry bulk fleet generated US$904.5 million (2008: US$1,648.0 million) or 92.4% (2008: 97.2%) of total segment revenue.

The table below outlines the Pacific Basin Dry Bulk segment operating performance during the year, split between handysize and handymax vessels:

	1H09	2H09	2009	2008	Change
Handysize					
Revenue days	12,460	13,640	26,100	24,890	+5%
Daily charter rates (US$)	13,610	15,310	14,500	29,600	-51%
Daily vessel operating costs (US$)	9,380	9,970	9,690	14,960	-35%
Segment net profit (US$ Million)	52.1	72.0	124.1	331.9	-63%
Segment net assets (US$ Million)	397.8	450.2	450.2	383.8	+17%
Return on net assets (annualised %)	26%	32%	28%	86%	-58%
Handymax					
Revenue days	5,150	5,490	10,640	11,050	-4%
Daily charter rates (US$)	19,840	19,160	19,490	44,610	-56%
Daily vessel operating costs (US$)	17,580	18,630	18,120	40,070	-55%
Segment net profit (US$ Million)	11.5	2.6	14.1	36.4	-61%
Segment net assets (US$ Million)	22.5	22.0	22.0	69.3	-68%
Return on net assets (annualised %)	102%	24%	64%	52%	+12%

Note 1: The above vessel operating costs include the write-back of the provision for time charter contracts for periods which lapsed during the year ended 31 December 2009 but exclude the write-back of the provision relating to future periods.

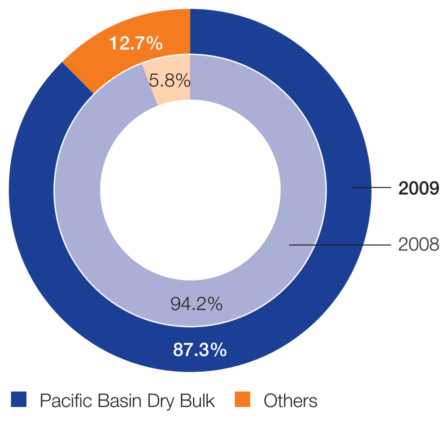
Note 2: The above handymax revenue days and daily rates exclude two vessels which are on long term charter at a daily rate of US$8,460 and for which the daily vessel cost is US$8,530.

Revenue and vessel days of our dry bulk vessels are analysed in the following table. The fleet of owned vessels experienced average off-hire of 1.3 days (2008: 1.5 days) per vessel in the year ended 31 December 2009.

	2009			2008		
	Owned & Finance leased	Chartered	Total	Owned & Finance leased	Chartered	Total
Handysize						
Vessel days	11,230	15,010	26,240	11,200	13,910	25,110
Drydocking	(100)	–	(100)	(170)	–	(170)
Off-hire	(40)	–	(40)	(50)	–	(50)
Revenue days	11,090	15,010	26,100	10,980	13,910	24,890
Handymax						
Vessel days	110	10,530	10,640	580	10,500	11,080
Drydocking	–	–	–	(30)	–	(30)
Off-hire	–	–	–	–	–	–
Revenue days	110	10,530	10,640	550	10,500	11,050

Direct Costs

Pacific Basin Dry Bulk direct costs as a percentage of total segment direct costs



The Group's dry bulk fleet incurred US$439.5 million (2008: US$809.0 million) or 87.3% (2008: 94.2%) of total segment direct costs.

Breakdown of Direct Costs

US$ Million	2009	2008	Change
Charter-hire expenses for vessels	337.9	696.8	-52%
Vessel operating costs	45.5	48.2	-5%
Depreciation of vessels	30.6	33.0	-8%
Direct overheads	25.5	31.0	-18%
Total	439.5	809.0	-46%

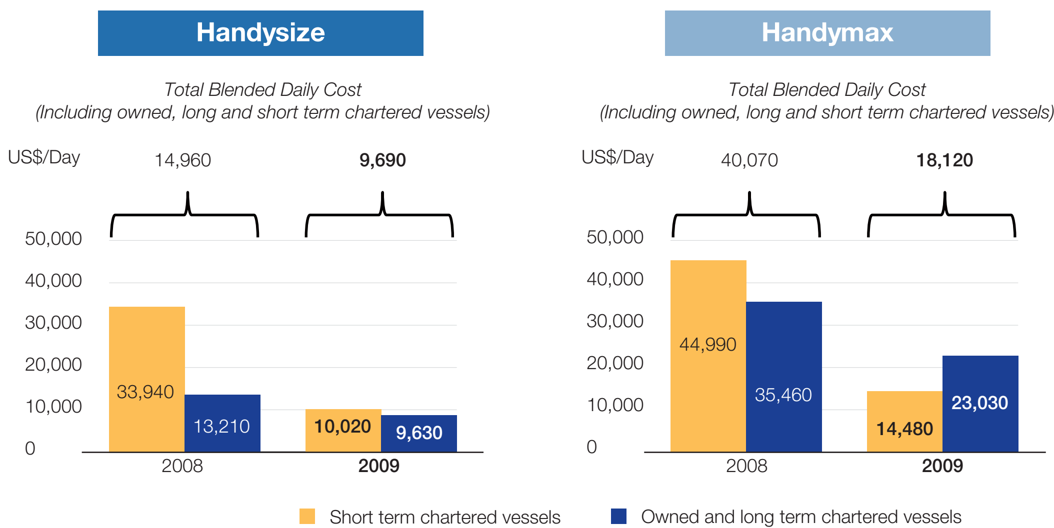
- Vessel operating costs include crew related, spares, lubricating oil and insurance costs.
- Decrease in depreciation of vessels is mainly due to the decrease in the average number of owned and finance leased vessels from 33 to 31.
- Direct overheads represent shore based staff, office and related expenses directly attributable to the management of the Pacific Basin Dry Bulk segment.

The majority of the decrease was represented by charter-hire expenses for vessels under operating leases (after provision for onerous contracts) which decreased to US$337.9 million (2008: US$696.8 million), reflecting:

a) a 53.9% decrease in the average daily charter rate of vessels chartered by the Group under operating leases;

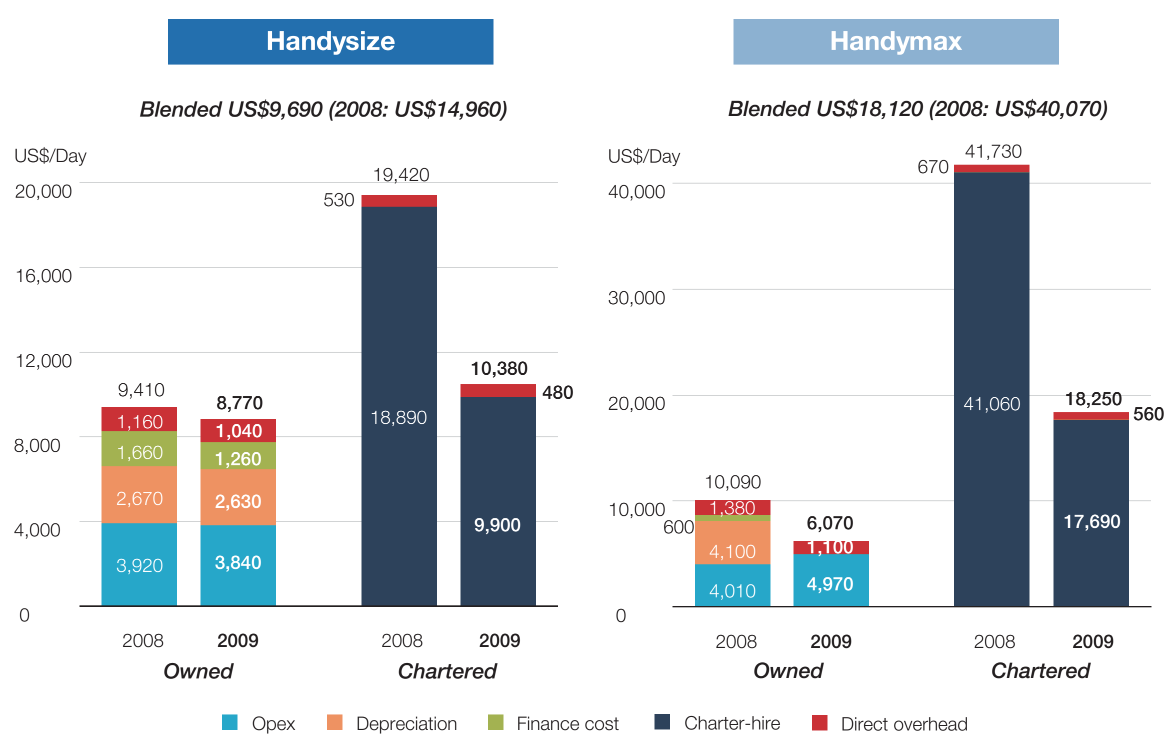
b) a 4.6% rise in the average number of vessel days chartered by the Group under operating leases; and

c) the inclusion of short term handysize and handymax vessel days chartered under operating leases of 3,980 (2008: 2,120) and 6,110 (2008: 5,360) respectively. The average rates for these short term chartered vessels were US$10,020 (2008: US$33,940) and US$14,480 (2008: US$44,990) respectively. Previously, these costs were classified as part of "bunker and port disbursements".



Blended vessel daily operating cost for handysize decreased 35.2% from the previous year mainly due to lower charter-hire costs of vessels sourced from the market and a US$26.7 million write-back of the provision for onerous contracts for the portion of time charter contracts which lapsed during the year ended 31 December 2009. The equivalent daily cost for handymax decreased 54.8% from the previous year for the same reason. Blended vessel daily operating costs include direct overheads and can be analysed between owned and chartered costs as follows:

Vessel Daily Operating Costs



PB Energy & Infrastructure Services Segment Net Profit

The Group's newly established PB Energy & Infrastructure Services segment (further split into PB Towage, FBSL and PacMarine) continues to seek growth opportunities and has expanded into offshore and project supply, harbour towage, rock aggregate production and transportation and ship survey and inspection services.

US$ Million	2009	2008	Change
PB Towage (offshore and project supply and harbour towage services)	1.0	(16.0)	–
Fujairah Bulk Shipping (aggregate production and transportation)	6.3	0.3	+2000%
PacMarine Services (ship survey and inspection services)	0.9	1.3	-31%
Segment net profit	**8.2**	(14.4)	–
Segment net assets	214.0	153.3	+40%
Return on net assets (%)	4%	-9%	+13%

- PB Towage's results are in line with the expansion of the Group's towage services since the start of the year. Fleet of tugs and barges grew from 20 to 28.
- Fujairah Bulk Shipping is a joint venture with the Government of Fujairah in the Middle East. Results improved mainly due to the commencement of a reclamation project.
- PacMarine Services' results decreased mainly due to the increase in ship inspection-related costs.

PB RoRo Segment Net Profit

The Group's first RoRo vessel began generating revenue from mid-September 2009.

US$ Million	2009	2008	Change
Segment revenue	3.3	-	–
Segment operating costs	(3.2)	(1.7)	–
Segment net profit	**0.1**	(1.7)	–
Segment net assets	192.1	169.6	+13%
Return on net assets (%)	0%	-1%	

Other Income Statement Items

Losses on Disposal of Property, Plant and Equipment

The Group's losses on disposal of property, plant and equipment totalled US$2.5 million (2008: gains of US$149.8 million). The Group disposed of a total of five vessels in early 2009 of which two were leased back. An additional vessel was sold and accounted for in the share of profits less losses of jointly controlled entities.

Proceeds from these sales of US$105.3 million were used to repay associated debt facilities of US$43.8 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.

During the year, the Group also shared the results of a jointly controlled entity from the sale of the vessel "Captain Corelli" of US$1.3 million (2008: US$4.8 million).

Other Income

Movements in the fair value of receipts from forward freight agreements amounted to US$55.0 million (2008: US$132.9 million).

During the year, the Group repurchased some of its convertible bonds with an aggregate face value of US$10.3 million at a discount, realising a gain of US$1.5 million.

During 2008, the Group made a provision of US$53.9 million for handysize time charter contracts substantially expiring in a three year period and whose charter rates were higher than the expected earnings for the remaining charter periods. Included in this provision was an amount of US$26.7 million for the portion of time charter contracts which lapsed during the year ended 31 December 2009. This has been written back to the income statement and shown in the Pacific Basin Dry Bulk – Handysize segment results. In addition, the Group wrote back US$27.2 million of provisions for time charter contracts for future periods due to the increase in the economic benefits expected to be generated by these contracts. Although the related liabilities lie with the Pacific Basin Dry Bulk – Handysize and Handymax segment, this write-back is not allocated to a segment result as it relates to time charter contracts in future periods.

Other Expenses

Movements in the fair value of payments for forward freight agreements amounted to US$80.7 million (2008: US$55.9 million). Taking into account the movements in fair value of receipts of US$55.0 million included in other income above, the net movement in the fair value of forward freight agreements was an expense of US$25.7 million (2008: gain of US$77.0 million).

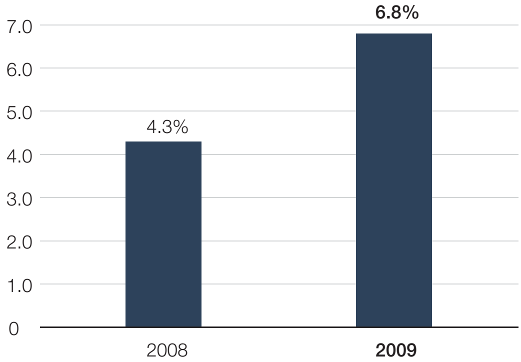
The Group made a US$2.0 million provision for handymax time charter contracts expiring in a three year period and whose charter rates were higher than the expected earnings for the remaining charter periods. Taking into account the write-back of the provision of US$53.9 million included in other income above, the net write-back of provisions was an income of US$51.9 million.

An impairment of US$25.0 million for the Group's RoRo fleet has been provided for in other expenses. Changes in the European RoRo market have given us concern about the ability to deploy newbuilding RoRo vessels profitably in the next two years. This has reduced the value-in-use of our six RoRo vessels to below their carrying value. This impairment is not allocated by management to the PB RoRo segment results as this does not form part of the segment's current period performance. The impairment reduces the carrying value of the PB RoRo segment assets.

General and Administrative Expenses

The Group's total administrative expenses of US$64.8 million (2008: US$75.2 million) are split between expenses for our direct overheads of US$52.5 million (2008: US$63.4 million) and general and administrative expenses of US$12.3 million (2008: US$11.8 million). The overall decrease was a result of our cost reduction exercises carried out at the end of 2008 and during the year which included a decrease in the number of staff engaged in maritime management services activities.

Administrative Expenses as a Percentage of Revenue



Share of Profits Less Losses of Jointly Controlled Entities

In addition to the jointly controlled entity included in the segment results of PB Energy & Infrastructure Services, the Group's share of profits less losses of jointly controlled entities also included the share of losses of US$2.5 million (2008: US$3.2 million) in Nanjing Longtan Tianyu Terminal Co. Ltd., and the share of results from the sale of the vessel "Captain Corelli" of US$1.3 million (2008: US$4.8 million).

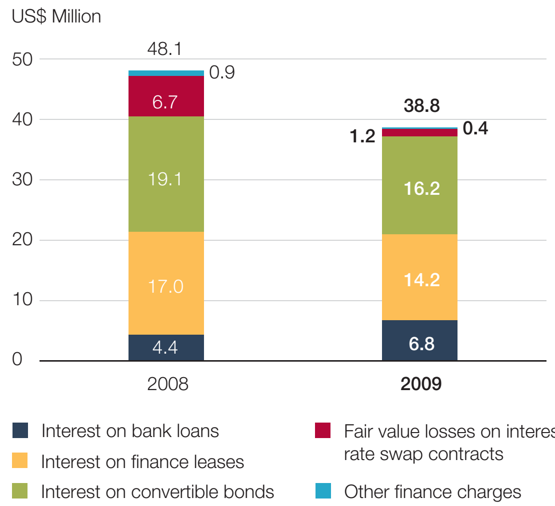
Finance Income

Finance income of US$11.4 million (2008: US$26.0 million) represented primarily US$10.3 million (2008: US$21.3 million) of bank interest income and the drop was in line with the reduction in deposit rates.

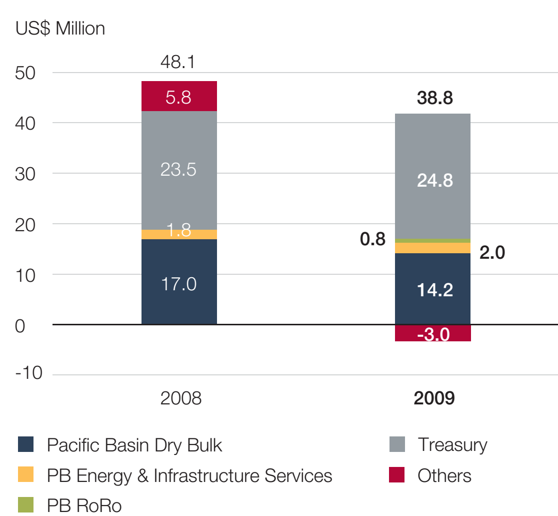
Financing

Finance costs of US$38.8 million (2008: US$48.1 million) can be analysed as follows:

By Source



By Segment

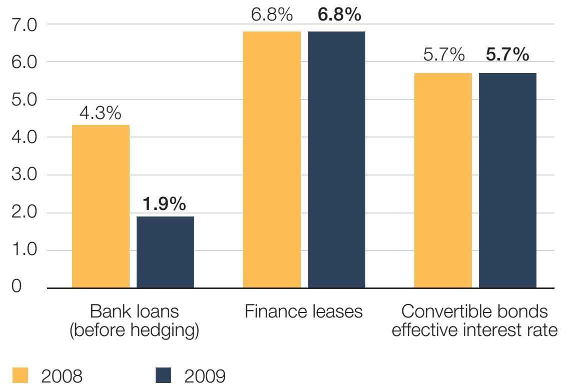


- The US$2.4 million increase in interest payments on bank borrowings was primarily due to the increase in the average bank borrowings outstanding to US$333.5 million (2008: US$95.8 million). Bank borrowings are subject to floating interest rates but the Group manages these exposures by way of interest rate swap contracts.

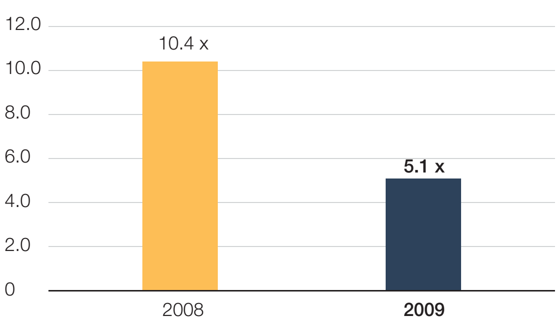
- Finance charges of US$14.2 million (2008: US$17.0 million) represented interest payments on the Group's finance leased vessels. Aggregate current and long term finance lease liabilities at 31 December 2009 were US$199.4 million. The fixed equal quarterly charter-hire payments are accounted for as a 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.

- In December 2007, the Group issued US$390 million, 3.3% per annum coupon, guaranteed convertible bonds maturing in 2013. During the year, the Group repurchased convertible bonds with an aggregate face value of US$10.3 million, in addition to the repurchases made in 2008 with face value of US$65.7 million. After these transactions, convertible bonds with a face value of US$314.0 million remain outstanding at 31 December 2009.

Average Interest Rates on Borrowings



Group Interest Coverage

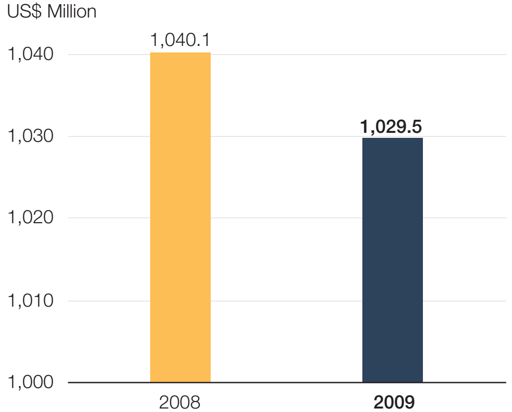


Tax

Shipping income from international trade is either not subject to or exempt from taxation according to the tax regulations 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 businesses operate.

Cash flow

The primary sources of liquidity comprised cash and bank balances of US$1,105.7 million, principally denominated in US$, and unutilised committed and secured bank borrowing facilities of US$18.0 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.



Financial Instruments

The Group is exposed to fluctuations in freight rates, bunker prices, interest rates and foreign currencies. The Group manages these exposures by way of:

- forward freight agreements ("FFA");
- bunker swap contracts;
- interest rate swap contracts; and
- forward foreign exchange contracts.

The treatment of these financial instruments in the financial statements depends on whether they qualify for hedge accounting.

Qualifying for hedge accounting

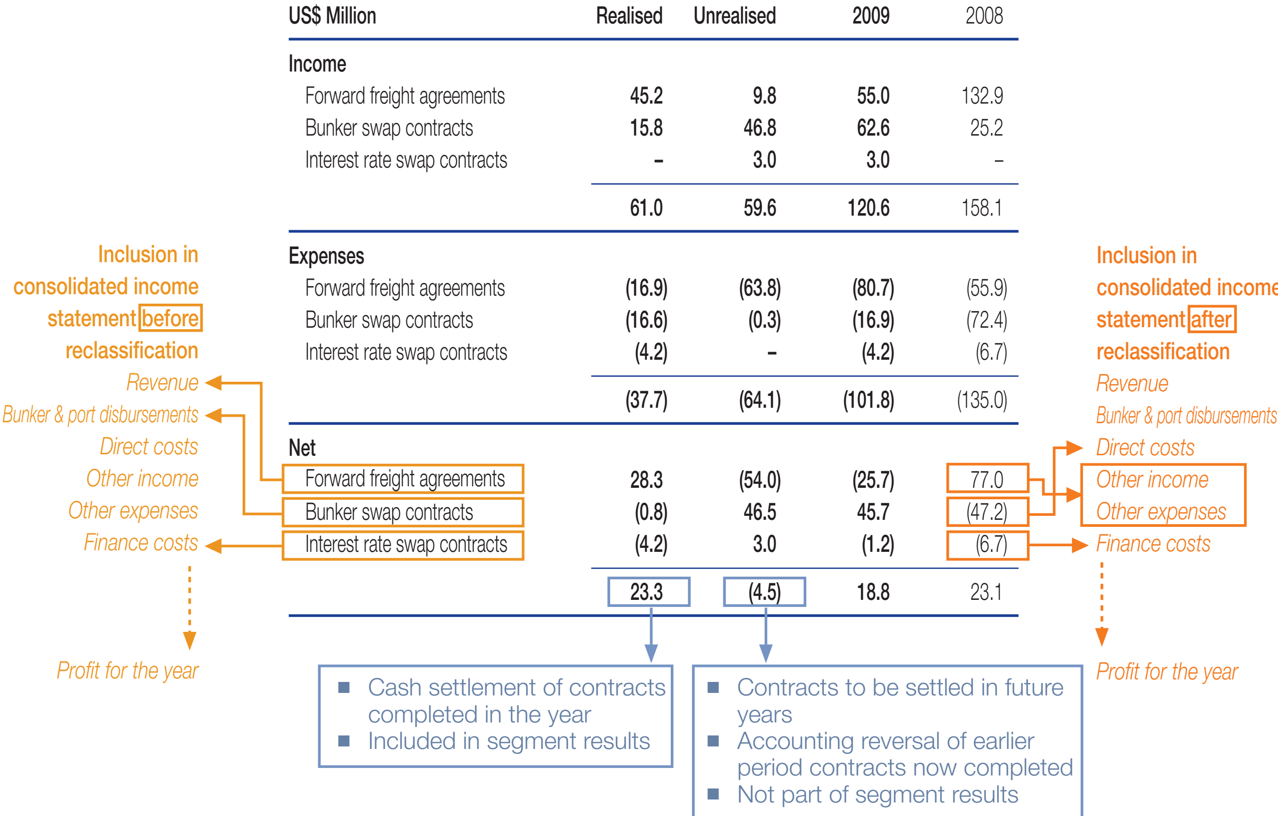
At 31 December 2009, the forward foreign exchange contracts and all except one of the interest rate swap contracts qualified as cash flow hedges. Accordingly, the change in the fair value of these instruments during the year was recognised directly in the hedging reserve.

Not qualifying for hedge accounting

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. The terms of one of the interest rate swap contracts also did not qualify for hedge accounting.

"Champion Bay" loading sugar in Fiji

During the year ended 31 December 2009, the Group recognised net derivative income of US$18.8 million, as follows:



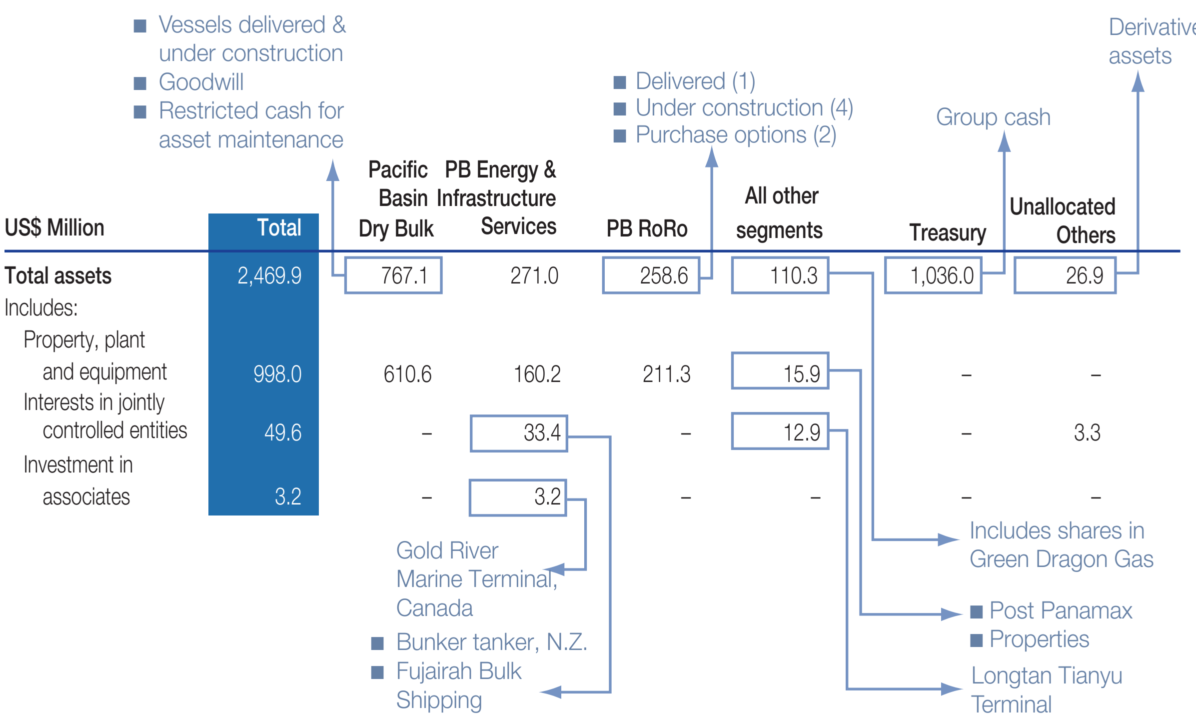
US$ Million	Realised	Unrealised	2009	2008
Income				
Forward freight agreements	45.2	9.8	55.0	132.9
Bunker swap contracts	15.8	46.8	62.6	25.2
Interest rate swap contracts	–	3.0	3.0	–
	61.0	59.6	120.6	158.1
Expenses				
Forward freight agreements	(16.9)	(63.8)	(80.7)	(55.9)
Bunker swap contracts	(16.6)	(0.3)	(16.9)	(72.4)
Interest rate swap contracts	(4.2)	–	(4.2)	(6.7)
	(37.7)	(64.1)	(101.8)	(135.0)
Net				
Forward freight agreements	28.3	(54.0)	(25.7)	77.0
Bunker swap contracts	(0.8)	46.5	45.7	(47.2)
Interest rate swap contracts	(4.2)	3.0	(1.2)	(6.7)
	23.3	(4.5)	18.8	23.1

The application of HKAS 39 "Financial Instruments: Recognition and Measurement" has the effect of shifting to this year the estimated results of these derivative contracts that expire in a future period. In 2009 this created a net unrealised non-cash expense of US$4.5 million. The cash flows of these contracts will occur in future reporting periods.

Balance Sheet Segment Analysis

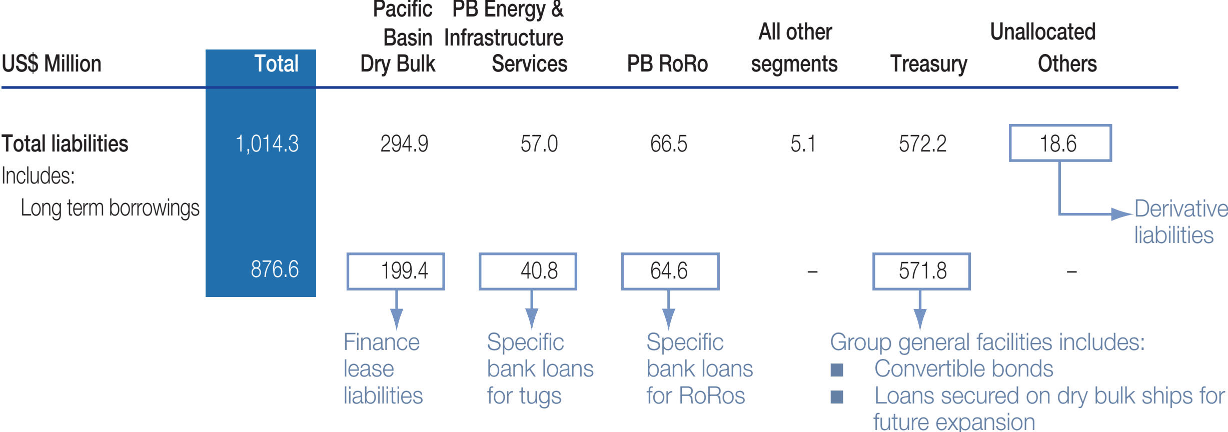
The following table seeks to link the balance sheet segment disclosure information to the different elements of our business.

Total Assets



US$ Million	Total	Pacific Basin Dry Bulk	PB Energy & Infrastructure Services	PB RoRo	All other segments	Treasury	Unallocated Others
Total assets	2,469.9	767.1	271.0	258.6	110.3	1,036.0	26.9
Includes:							
Property, plant and equipment	998.0	610.6	160.2	211.3	15.9	–	–
Interests in jointly controlled entities	49.6	–	33.4	–	12.9	–	3.3
Investment in associates	3.2	–	3.2	–	–	–	–

Total Liabilities

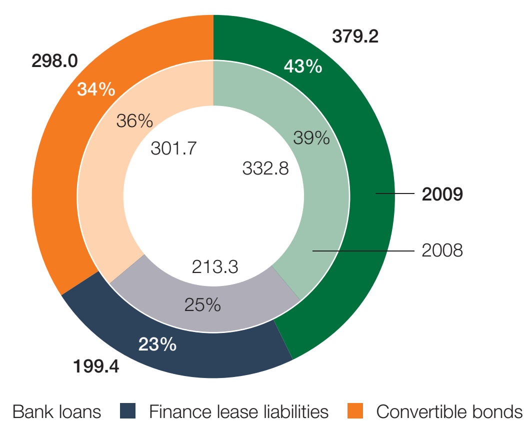


US$ Million	Total	Pacific Basin Dry Bulk	PB Energy & Infrastructure Services	PB RoRo	All other segments	Treasury	Unallocated Others
Total liabilities	1,014.3	294.9	57.0	66.5	5.1	572.2	18.6
Includes:							
Long term borrowings	876.6	199.4	40.8	64.6	–	571.8	–

Indebtedness

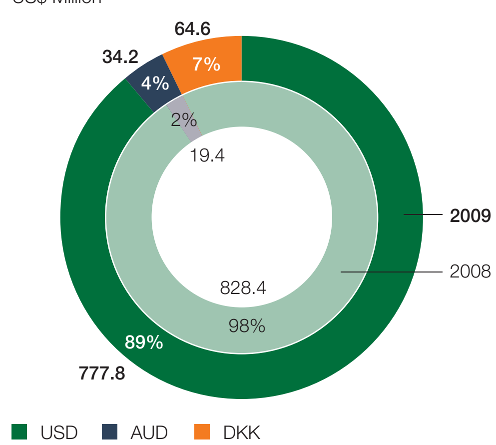
By Source

US$ Million



By Currency

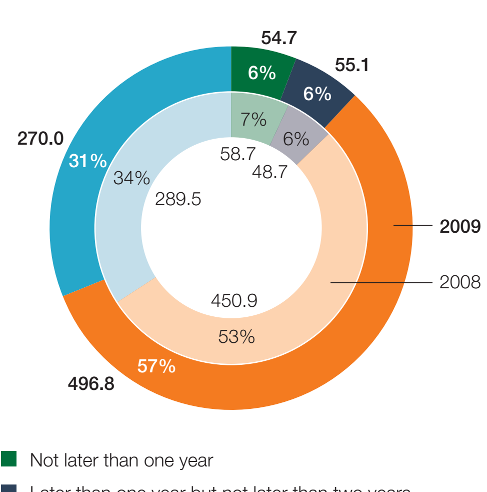
US$ Million



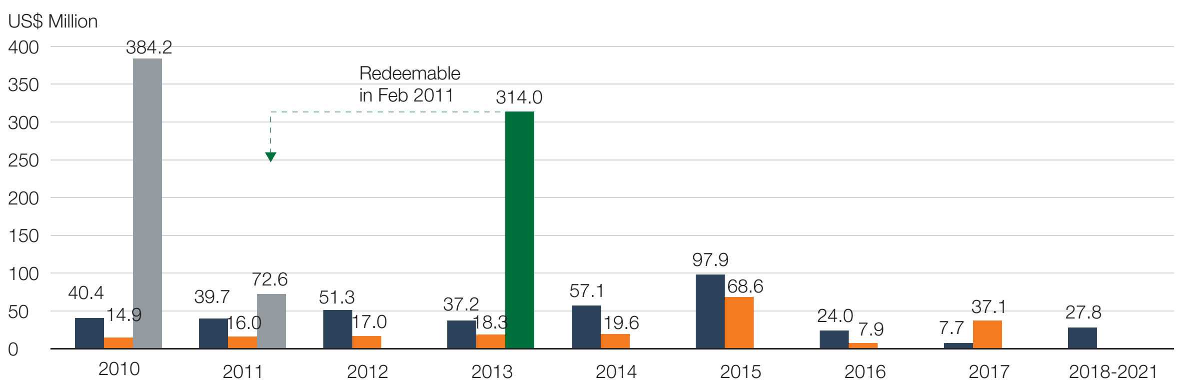
- The indebtedness of the Group amounted to US$876.6 million (2008: US$847.8 million).
- Bank borrowings (net of deferred loan arrangement fees) decreased as a result of repayments and prepayments following the sale of five vessels. The Group's bank borrowings were secured by mortgages over 29 vessels with a total net book value of US$479.9 million and an assignment of earnings and insurances in respect of these vessels.
- Bank borrowings are in the functional currency of the business segment to which they relate.
- Finance lease liabilities decreased as a result of repayments during the year.
- The debt component of the Group's convertible bonds decreased primarily as a result of the repurchase and cancellation of a portion of the bonds during the year.

By Maturity

US$ Million

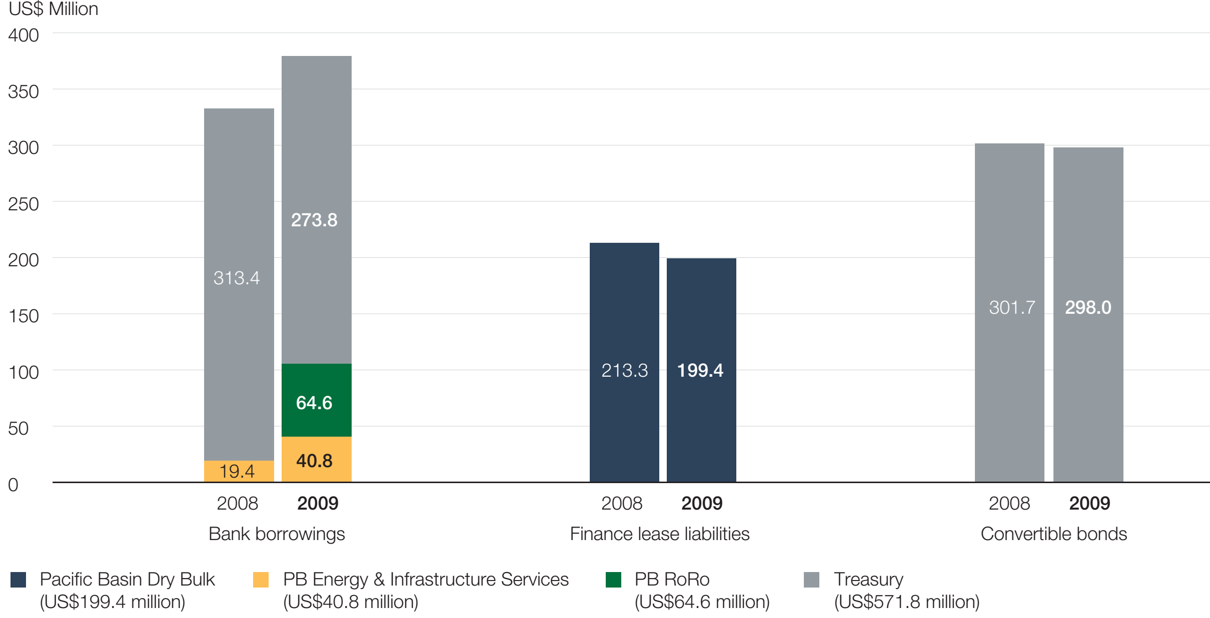


Borrowings and Vessel Capital Commitments



In addition to the cash generated from the Group's operations, existing cash and additional long term borrowings to be arranged as required, the Group had unutilised committed and secured bank borrowing facilities of US$18.0 million available to finance the Group's existing vessel and other capital commitments and other vessel acquisitions.

By Source and Segment



The Group, through its treasury function, procures indebtedness by leveraging the Group's balance sheet so as to optimise the availability of cash resources to the Group. Finance lease liabilities are allocated to the segment where the asset is owned.

Net Cash

As part of the Group's ordinary activities, the treasury function seeks to enhance the income from the Group's cash resources through a mix of financial products, based on the perceived balance of risk, return and liquidity. These products include overnight and term deposits; money market funds; liquidity funds; structured notes; and currency linked deposits.

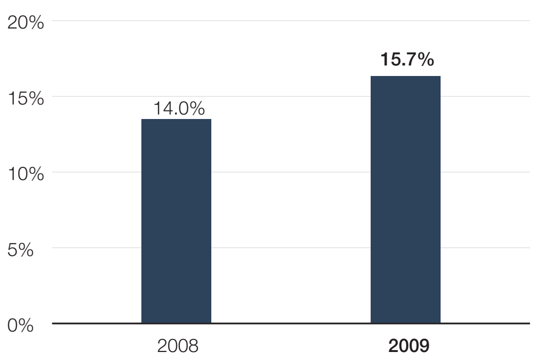
US$ Million	2009	2008	Change
Cash and deposits	**1,105.7**	1,023.7	+8%
Borrowings	**(876.6)**	(847.8)	+3%
Net cash	**229.1**	175.9	+30%

- Cash and deposits benefitted from the US$97.1 million net proceeds after the placement of 174,731,010 new shares in May 2009.

Net Cash to Book Value of Property, Plant and Equipment

23.0%
22.5%
22.0%
21.5%
21.0%
22.0%
22.7%
2008
2009

Net Cash to Shareholders' Equity



Lease Commitments

Vessel operating lease commitments stood at US$424.8 million (2008: US$593.4 million). 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.

The Group has commitments of 28,790 days under handysize finance leases and 26,930 days under handysize and handymax operating leases. The following table shows the average contracted daily charter rates and total number of vessel days of our handysize and 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.

Handysize and handymax vessel lease commitments

Year	Handysize Operating leases		Handysize Finance leases		Handymax Operating leases	
	Average daily rate (US$)	Vessel days	Average daily rate (US$)	Vessel days	Average daily rate (US$)	Vessel days
2010	12,320	8,480	5,960	4,750	20,580	3,470
2011	10,370	3,020	5,920	4,760	22,990	250
2012	10,970	2,820	5,960	4,750	–	–
2013	11,490	2,200	5,950	4,750	–	–
2014	11,850	1,830	5,940	4,750	–	–
2015	11,900	1,750	5,910	2,590	–	–
2016	11,680	1,190	5,970	1,830	–	–
2017	11,480	760	5,840	610	–	–
2018	11,500	730	–	–	–	–
2019	13,000	370	–	–	–	–
2020	13,000	60	–	–	–	–
Total		23,210		28,790		3,720

As part of other income and expenses in the year, the Group wrote back US$27.2 million of provisions for handysize time charter contracts relating to 2010 and 2011, primarily due to the increase in the economic benefits expected to be generated by them. At 31 December 2009, a provision of US$2.0 million has been made for handymax time charter contracts expiring in 2010 and 2011. The above average yearly charter rates reflect these changes in provisions.

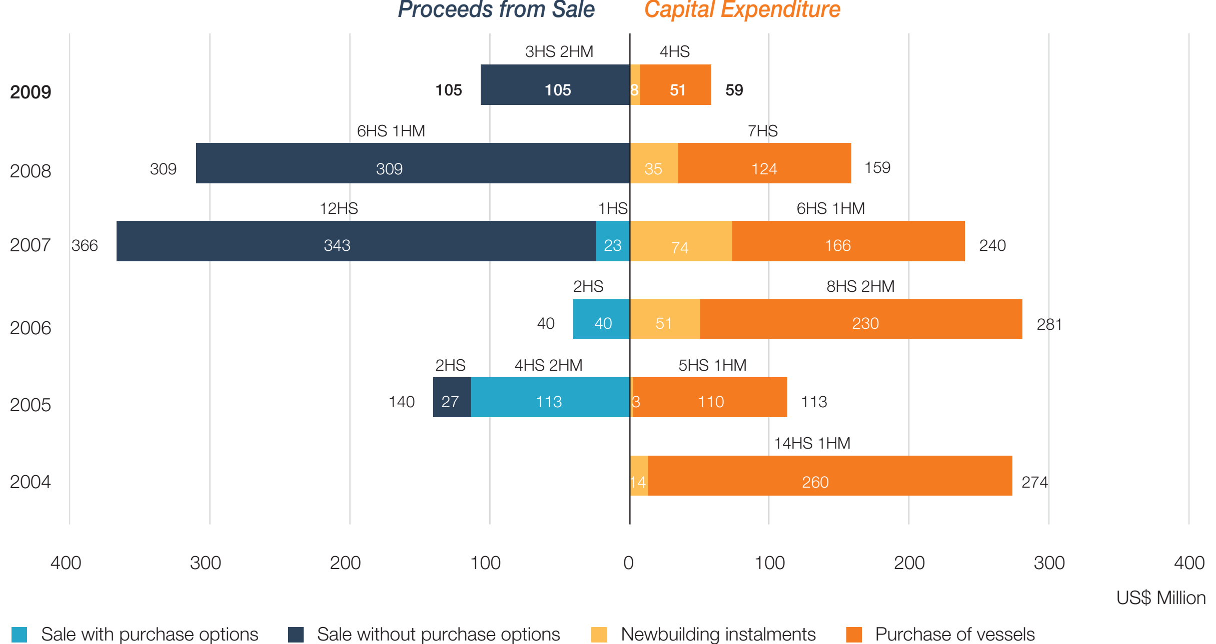
Certain lease agreements provide the Group with options to purchase the related vessels at predetermined times and prices during the lease periods. The average prices of the existing purchase options for the Group's dry bulk vessels in the earliest years in which these options may be exercised, along with the number of vessels and the average age of such vessels in those years, are as follows:

Earliest year in which options may be exercised	Vessel type	Number of vessels at 31 December 2009 Finance lease	Number of vessels at 31 December 2009 Operating lease	Average age of vessels (years)	Average purchase option exercise price (US$ Million)
2009	Handysize	13	8	4	17.8
2010	Handysize	–	1	3	22.5
	Handymax	–	1	5	17.7
2016	Handysize	–	1	5	46.3
	Post Panamax	–	1	5	67.5
Total		13	12		

Capital Expenditure and Property, Plant and Equipment

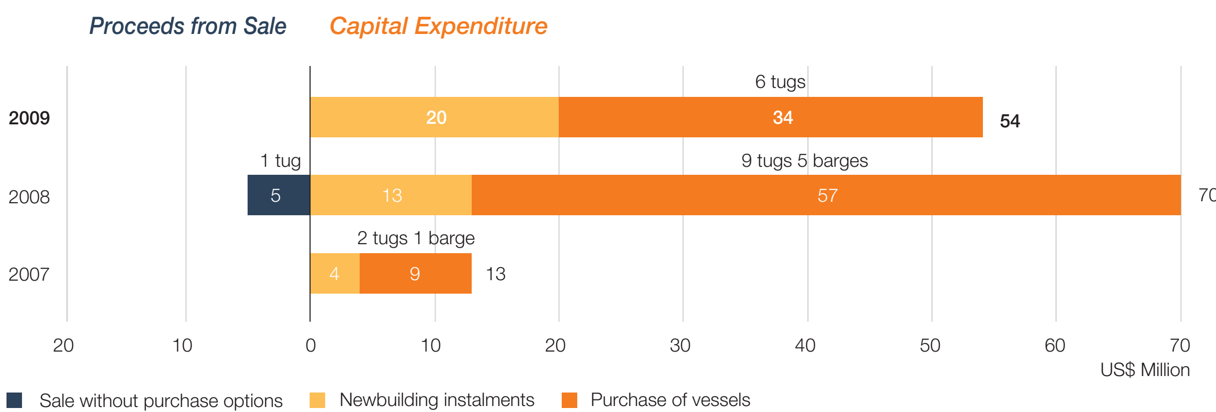
During the year ended 31 December 2009, capital expenditure amounted to US$274.9 million resulting from the addition of four handysize vessels, six tugs and 1 RoRo as well as instalment payments on 12 vessels, including handysize, post panamax, RoRo and tug vessels. Cash used for the purchase of vessels and proceeds from the sale of vessels are illustrated below.

Dry Bulk Vessels



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

Tugs & Barges



At 31 December 2009, the Group had property, plant and equipment with net book value of US$998.0 million, of which US$801.2 million related to 32 delivered handysize vessels with an average net book value of US$17.8 million, one handymax vessel with net book value of US$16.8 million, 29 tugs and barges with an average net book value of US$4.2 million and one RoRo vessel with net book value of US$91.5 million.

Vessel Commitments

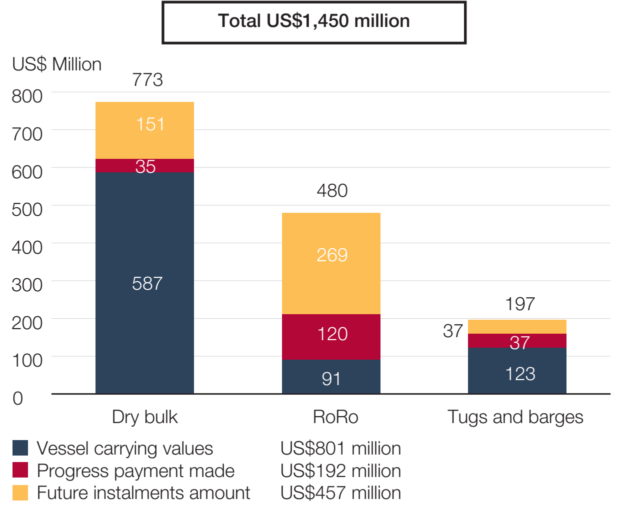
At 31 December 2009, the Group had non-cancellable vessel commitments of US$244.2 million and a further US$150.3 million payable under purchase options. The vessels are for delivery to the Group between January 2010 and November 2011.

US$ Million	Number	2010	2011	Total
Handysize vessels	2	22.4	-	22.4
Handymax vessel	1	22.6	-	22.6
Post panamax vessel	1	21.7	22.1	43.8
Tug vessels	7	20.0	-	20.0
RoRo vessels	3	84.9	50.5	135.4
Commitments at 31 December 2009	14	171.6	72.6	244.2
Recent Vessel Commitments				
Handysize vessels	3	62.3	–	62.3
	17	233.9	72.6	306.5
If options to purchase are being exercised, capital expenditure would be as follows:				
Tug vessels	2	16.7	–	16.7
RoRo vessels	2	133.6	–	133.6
	4	150.3	–	150.3
Combined total	21	384.2	72.6	456.8

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 (including purchase option) is shown opposite:

A Combined View of Vessel Carrying Values and Commitments



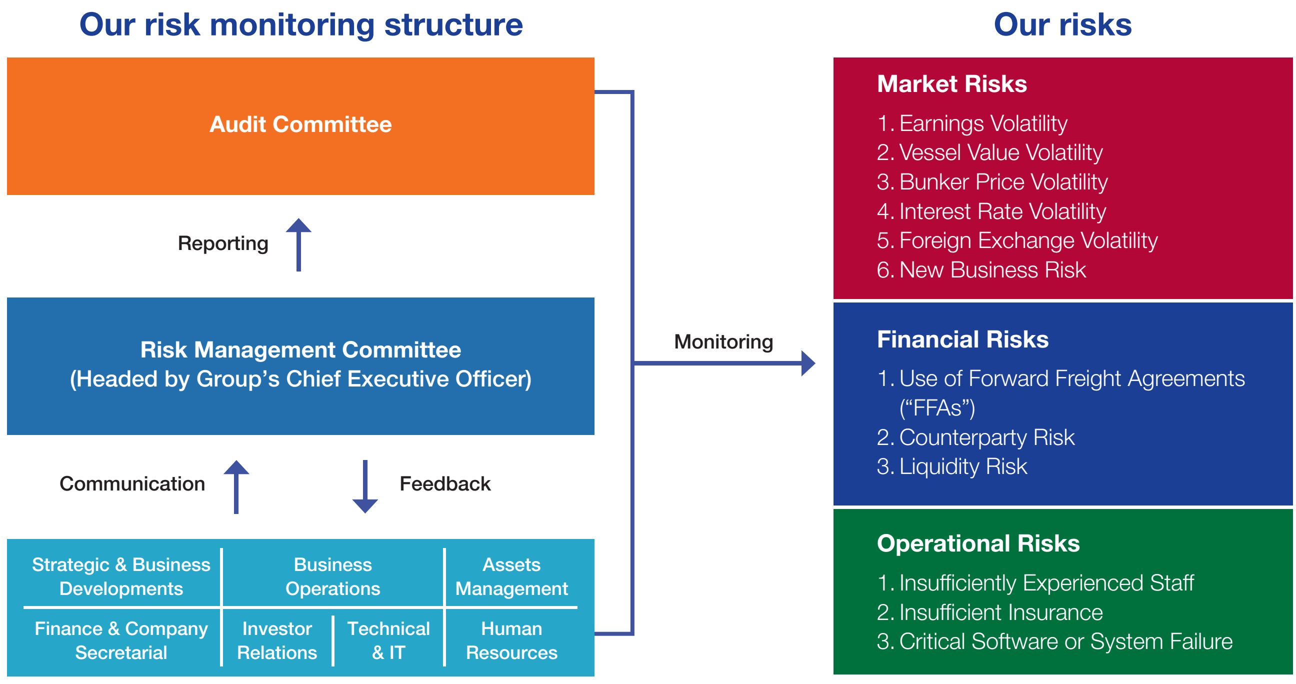
Staff

- At 31 December 2009, the Group employed a total of 356 (2008: 363) full time shore based staff in offices in Hong Kong, Shanghai, Beijing, Dalian, Nanjing, Manila, Tokyo, Seoul, Singapore, Auckland, Sydney, Melbourne, Fremantle, Fujairah, Dubai, Bad Essen, London, Liverpool, Houston, Santiago and Vancouver.
- The Group incurred total staff costs (included in direct overheads and general and administrative expenses as described earlier) of approximately US$43.8 million (2008: US$51.7 million), representing 4.6% of the Group's revenue (2008: 3.1%). Please see the paragraph headed "General and Administration Expenses" for more details.
- 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, 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 LTIS are set out in the "Report of the Directors" section of this Annual Report.

RISK MANAGEMENT

"Willow Point" discharging logs in Shanghai

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 considered appropriate.



Market Risks

1. Earnings Volatility

The Group's operating revenue principally comprises income generated from voyages carried out by its fleets of dry bulk vessels, tugs and barges and RoRo vessels. Such income is highly dependent on prevailing market conditions, as reflected in freight and job rates.

How do we manage our risk?

Pacific Basin Dry bulk
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. 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 10 customers account for around 31% of our total dry bulk 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.

PB Energy & Infrastructure Services
The Group's towage business seeks to diversify the Group's earnings through its harbour towage operation in Australia and its offshore and project towage business in Australasia and the Middle East. During mid-2009, a joint venture providing offshore towage and logistics services to support the development of a major new gas field offshore Western Australia was established, which stabilises the revenue streams of towage business.

PB RoRo
The Group's RoRo business seeks to further diversify the Group's earnings through exposure to the European short sea trailer market, which is engaged in the carriage of industrial and consumer products. In September 2009, our first RoRo vessel commenced service. Five additional vessels are due to be delivered between 2010 and 2011.

2. Vessel Value Volatility

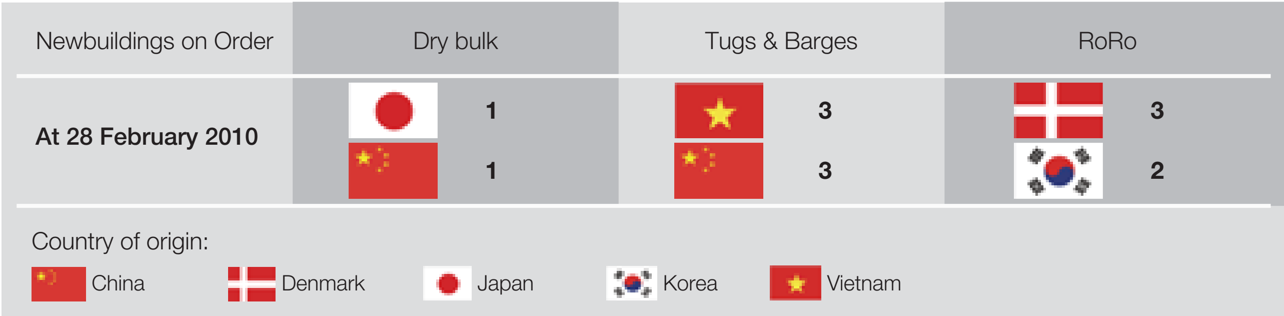
The value of dry bulk vessels varies significantly with changes in vessel earnings and cost of replacement tonnage. The Group needs competitively priced and high quality vessels to provide its services to customers. As a result, the Group manages its exposure to vessel values through the purchase and sale of both newbuilding and second hand vessels.

How do we manage our risk?

The Group evaluates potential investments and divestments based on available relevant market information and estimated future earnings and residual values, so as to maximise returns to shareholders.

Newbuilding transactions

The Group contracts with leading, reputable and financially viable newbuilding shipyards or with other yards whose performance under the newbuilding contracts is guaranteed by first-class bank or by a financially trustable related company acceptable to the Group.



Newbuildings on Order	Dry bulk		Tugs & Barges		RoRo	
At 28 February 2010	Japan	1	Vietnam	3	Denmark	3
	China	1	China	3	Korea	2

Country of origin: China, Denmark, Japan, Korea, Vietnam

Sale and charter back transactions

The Group considers possible sale and charter back of vessels on terms which may also include options for the Group to repurchase the vessels at predetermined times and prices during the charter periods. 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.

Second hand vessel transactions

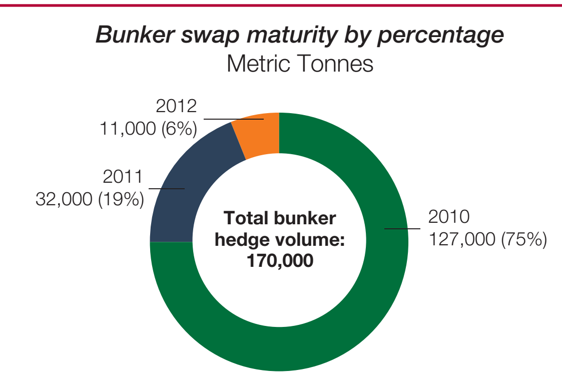
In the case of second hand vessel transactions, the Group considers the creditworthiness of its counterparties. When selling ships, sale contracts contain an industry standard clause of a 10%-20% pre-delivery deposit as security for the fulfilment of a buyer's obligation. When buying ships, the risk of non-delivery would primarily 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 bunkers represent significant payments of the Group.

How do we manage our risk?

To mitigate the risk arising from future oil price fluctuations between the date a cargo contract is entered into and the date the cargo is carried, 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.



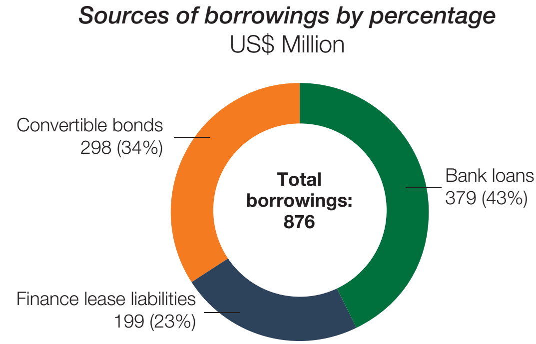
4. Interest Rate Volatility

The Group's interest rate volatility risk is associated with its interest-bearing bank loans.

How do we manage our risk?

The Group aims to manage its exposure to interest rate movements on its borrowings and minimise interest costs. Risk associated with interest rate volatility is mitigated through process of actively managing the fixed and floating interest rate components on our borrowings and through the use of derivative products such as interest rate swap contracts on our longer term borrowings.

The Group enters into interest rate swap contracts mainly with our lending banks with terms that typically match the profile and tenor of the underlying borrowings. In 2009, this resulted in an effective interest rate of approximately 1.9% (2008: 4.3%) per annum for our bank borrowings. The Group's hedging portfolio is reviewed and adjusted on a regular basis to adapt to changing market conditions.



5. Foreign Exchange Volatility

The functional currency of most of the operating companies of the Group is the United States Dollar, 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 the Japanese Yen and Euro that are different from the functional currencies of the operating unit.

How do we manage our risk?

The Group aims to manage or minimise the risk associated with fluctuations in foreign exchange rates through hedging 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 businesses whose functional currencies are not US Dollar, we apply the same principles in managing their foreign exchange exposure. For newbuilding vessels, these contracts typically range between one and three years depending on the duration of vessel construction periods; our current furthest exposure is within 2011.

6. New Business Risk

The Group has expanded into new business areas that are outside its traditional dry bulk area of expertise. Risks associated with new businesses need to be understood, assessed and managed.

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 operations. 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 internal controls and reporting system.

Logs and sawn timber on deck

Financial Risks

1. Use of Forward Freight Agreements (“FFAs”)

The Group enters into FFAs on a limited basis primarily 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 policy under which the Group enters into FFAs. Such policy clearly defines authority levels and limits for hedging purposes and reporting requirements. FFAs normally run for a period of three to twelve months. The Board has established a Board subcommittee to review the Group’s mark to market exposure level during the year. Day to day responsibility of monitoring adherence to the policy is delegated to the Executive Committee.

2. Counterparty Risk

The Group’s counterparty risk primarily relates to its COAs, outward period charters and derivative contracts. The Group’s gross losses from uncollected freight and charter-hire receivables amounted to 1.0% (2008: 0.5%) of profit attributable to shareholders in 2009.

How do we manage our risk?

For trade counterparties, the Group has 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 creditworthiness 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 sound Standard & Poor’s credit rating.
- 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 contract substantially all our FFA trading 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 sound Standard & Poor’s credit rating.

3. Liquidity Risk

Liquidity risk relates to the availability of bank borrowings for funding the Group's activities. Liquidity risk increases when the credit markets tighten.

How do we manage our risk?

The Group manages liquidity risk by ensuring sufficient funds are at its disposal at all times to meet its financial commitments including complying with covenants under loan agreements. This is achieved through actively managing the Group's cash portfolio and ensuring that sufficient borrowing facilities are available to meet existing and future commitments according to the policy and guidelines approved by the Board.

The Group's cash portfolio comprises mainly deposits with financial institutions with sound credit ratings with tenors ranging from overnight to 3 months depending on its cash needs. In addition, our preference has been to place deposits with institutions that have deposit protection by way of government backed guarantees.

The Group also invests in money market funds managed by financial institutions. The choice of institutions and funds is limited to those with sound credit ratings and well diversified portfolios to ensure that the risk is well spread.

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 and 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, Lloyd's 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 of 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, freight demurrage and defense, bunker insurance, charterers liability, purchaser interest, charterers advance profit, ship owner liability, cargo liability and property risk cover. We insure to the highest standards in the industry.

Insurances are only arranged with reputable underwriters. We use more than 15 well-known international underwriters at competitive premiums. The insured value of our fleet is not less than the vessels' market values. 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 record 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. It is 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.

CORPORATE CITIZENSHIP

Cheerful crew on the newly delivered "Cape Moreton"

Pacific Basin strives to be the ship owner/operator of choice for customers, suppliers, partners, staff, investors and stakeholders at large, and we recognise that such ambition comes with responsibility in a large number of areas. In this vein, we are committed to maintaining high standards of excellence within the Company in particular on environmental, social, staffing and safety matters.

Environment

Pacific Basin seeks to minimise its impact on the environment and we operate our vessels in strict adherence to applicable environmental legislation, exceeding regulatory requirements where practically possible.

We own a modern fleet of dry bulk, towage and RoRo vessels which consume less fuel and produce fewer emissions than the average vessel in the sectors in which we are engaged. With a focus on our cornerstone dry bulk fleet, we strive for continual, further improvement on our vessels' environmental performance through a range of efforts predominantly involving:

- the monitoring and analysis of data on our ships' discharges and emissions;
- the review and adjustment of our operational practices to minimise such output; and
- the monitoring and reviewing of industry developments to minimise our ships' environmental impact.

Examples of our main environmental initiatives in 2009 include:

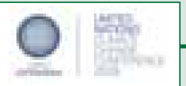
- the continued use of boss cap fins on our ships' propellers to improve fuel efficiency;
- the increased application of environmentally sound antifouling paints on our ships' hulls up to the summer load water line;

- the increased use of shore reception facilities for the disposal of sludge and garbage, thus reducing emissions from sludge incineration and eliminating garbage disposal at sea (with the exception of food wastes and cargo residues that are permitted to be disposed of);
- the use of the Computerised Analysis of Ship Performance (CASPER) system to monitor hull performance over time and maximise fuel efficiency;
- the further development and analysis of our discharge and emissions track record with the intent to have the results audited and to publish a full Environmental Report in 2011 or 2012; and
- the careful monitoring of developments prior to, during and following last December's Copenhagen Climate Change Conference ("COP15") and their implications for the shipping industry (see sidebar below).

Our office-based staff are as committed to environmental protection ashore as at sea, through a range of practices that reduce our consumption of electricity, water and materials, and recycle our office waste where possible.

Whilst some of our initiatives might make a relatively modest positive impact on the environment, we believe that every effort counts. Many of the initiatives that we pursue at sea and ashore go well beyond what is required of us under law. Most of our environmental efforts have also been proven to make good business sense.

COP15 and its implications for shipping



Last December's Copenhagen Climate Change Conference failed to culminate in a binding agreement and the accord reached failed even to (a) set aspirational targets for greenhouse gas emission ("GHG") reductions and (b) mention marine emissions. Thus the provisions of the existing Kyoto Protocol continue to prevail. This leaves international shipping practically unregulated for now in respect to GHG emissions and the UN's International Maritime Organisation ("IMO") tasked with tackling emissions reduction.

The IMO proposes to do so with a package of technical and operational measures as well as market-based emissions-cutting incentives. We are confident that Pacific Basin is on track to satisfy any such eventual mandatory technical and operational requirements, and should not be significantly disadvantaged by a globally enforced market-based scheme on account of our modern fleet and the likelihood that related costs would be ultimately borne by customers.

Nevertheless, the future is uncertain in regards to maritime emissions: if the IMO's climate initiative proposal fails to be sufficiently credible, unilateral local or regional initiatives may result in a mélange of regulations creating a difficult trading environment for what would become a much more segmented industry. Pacific Basin is supportive of the creation of sensible but effective industry-wide measures to reduce emissions – a global effort which we believe should be the jurisdiction of the IMO – including the adoption of carbon taxation in the form of a levy on bunker fuel.

Despite the uncertainty over who will legislate on emissions, and how and when, we continue our own in-house efforts to minimise our emissions and are confident that we will be at the head of the pack in terms of environmental performance within our sector when GHG emissions legislation does become globally enforced in the future.

Health and Safety

The safety of our staff and seafarers and the environment is a responsibility that we take very seriously at Pacific Basin, and our prescribed processes aimed to prevent injury, loss of life and damage to the environment are encompassed in our Pacific Basin Management System.

Our proactive Pacific Basin Management System ashore and at sea conform to the mandatory International Safety Management (ISM) Code and a number of voluntary safety and environmental management standards as certified by Lloyd's Register Quality Assurance (LRQA), including:

- ISO 14001:2004 for our environmental management system;
- OHSAS 18001:2007 for our occupational health & safety management system; and
- ISO 9001:2008 for our quality management system.

Standards and Training

We recognise the importance of training to promote safe operations and to provide employees with a fulfilling and healthy work environment.

For our staff at sea, we employ a number of Fleet Training Superintendents to sail on vessels and offer on-the-job training in safety and key operational areas. Our technical department also provides advice and counsel on correct safety and operating procedures to ensure a high level of performance amongst our seafarers. Through the commitment we make to our crews' safety, training and overall job fulfilment, we benefit in return with increased retention of high-quality, loyal seafarers.

On shore, we also conduct half-yearly training seminars for our senior managers so that they may be kept abreast of regulatory requirements and other developments affecting our industry and their areas of focus. Staff members are also encouraged to undertake higher education courses, for which the Company will provide financial assistance where appropriate.

We have engaged in a cadet recruitment and training scheme in China since 2005, and will be launching a formal scheme in the Philippines in 2010.

We demonstrated a good track record in external inspections and have won the Hong Kong Marine Department's "Best Performing Ship Management Company in Port State Control Inspections" awards in 2008 and 2009.

The Community

We recognise our obligations as a responsible member of the community both in Hong Kong and the cities and ports where Pacific Basin carries out its worldwide trades.

We are active contributors within the shipping community through our membership of maritime organisations and bodies such as Intercargo, BIMCO, the Baltic Exchange and the Hong Kong Shipowners Association, as well as via the Shipping Consultative Committee of the Hong Kong Flag State. We also maintain a close relationship with other shipping companies, particularly in regard to environmental 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 also employ a large number of Filipino crew, and so strive to maintain a responsible operation in the Philippines as we do in China. Our strong presence in and commitment to these major crew resource pools enables us to man our fleet with experienced crew despite the ever present shortage of maritime personnel in the industry.

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 community. In 2009, we supported a number of charities including:

- The Community Chest of Hong Kong, The World Wide Fund for Nature, Oxfam (by sponsoring staff who successfully completed the 100km Oxfam Trailwalker event in Hong Kong), Concern Worldwide, The Mission to Seafarers, The Hong Kong Maritime Museum Trust and The British and International Sailors Society;
- We donated generously to Project Kaisei, a non-profit organisation based in San Francisco and Hong Kong, established to increase the understanding and scale of marine debris, its impact on our ocean environment, and how we can introduce solutions for both prevention and clean-up. This was followed by a Pacific Basin organised beach clean-up on an island in Hong Kong badly affected by garbage carried downstream from the Pearl River Delta;

- We participated in a fund raising effort in which another staff member scaled Mount Kilimanjaro to raise much needed funds for the Friends of the Citizens Foundation devoted to providing education to underprivileged children in Pakistan; and
- We also donated generously with cash and staff participation in community projects to assist the survivors of the devastating floods that affected Manila in the aftermath of Typhoon Ketsana in September 2009.

1 Pacific Basin supports health awareness programmes such as "Fruity Friday" organised by the World Cancer Research Fund

2 + 6 PB staff and industry friends visit the Hong Kong Maritime Museum which Pacific Basin proudly supports

3 + 4 Capt. Suresh Prabhakar and his PB team performed admirably at the Noble Cricket Sixes

5 + 9 PB beach clean-up on Lamma Island commemorating World Oceans Day

7 Capt. Jay Pillai and friends completed the 100 km Oxfam Trailwalker charity hike

8 Danish Sultan conquered Mt. Kilimarjaro in aid of worthy causes

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:

- 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;
- The Group seeks continuous improvement in the effectiveness of its internal control procedures. Responsibility lies with the Risk Management Committee ("RMC"), led by the 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; and
- During the reporting year, the Board comprised ten Directors, three of whom were Independent Non-executive Directors, which was less than the recommended one-third number. The number was, however, in line with the Listing Rules for a minimum of three Independent Non-executive Directors. As at the date of this Annual Report, the Group was compliant with the recommendation that one-third of the Board comprises of Independent Non-executive Directors.

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.

Board Composition

As at the date of this Annual Report, the Board comprises nine Directors whose biographical details are set out in the "Directors and Senior Management" section of this Annual Report. Four of the Directors are Executive, two are Non-executive (one of whom was an Executive Director prior to 1 January 2010) and three are Independent Non-executive. The five Non-executive Directors play a key role in protecting shareholders' interests. They 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. The roles and responsibilities of each Board member are clearly set out and are available on the Company's website.

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.

Chairman and Chief Executive Officer

The posts of Chairman and Chief Executive Officer are held by Mr. David M. Turnbull and Mr. Klaus Nyborg respectively and their roles and responsibilities are separate and are set out in writing. Mr. Richard M. Hext was the Chief Executive Officer during the reporting year until he resigned as an Executive Director with effect from 31 December 2009.

The Chairman is responsible for considering and approving Group strategies and policies in conjunction with the Board and overseeing their subsequent execution by management and setting Group management principles, particularly regarding the control of risk. He is also responsible for ensuring that he and his delegates shall, in the capacity of Chairman, comply with the responsibilities under the Code. The Chief Executive Officer is charged with the general day to day management and execution of the Group's core activities and strategic initiatives and is responsible for formulating and proposing group strategy and policy to the Board and ensuring that appropriate information is circulated regularly so that Board members can actively contribute to the Group's development.

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 seven occasions during 2009. 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	7/7		
Klaus Nyborg	7/7		
Jan Rindbo	7/7		
Wang Chunlin	7/7		
Non-executive Directors			
Daniel R. Bradshaw	7/7	4/4	1/2
Richard M. Hext (an Executive Director prior to 1 Jan 2010)	7/7		
Dr. Lee Kwok Yin, Simon[1]	0/7		0/2
Independent Non-executive Directors			
Robert C. Nicholson	5/7	3/4	2/2
Patrick B. Paul	6/7	4/4	1/2
Alasdair G. Morrison	6/7	4/4	2/2

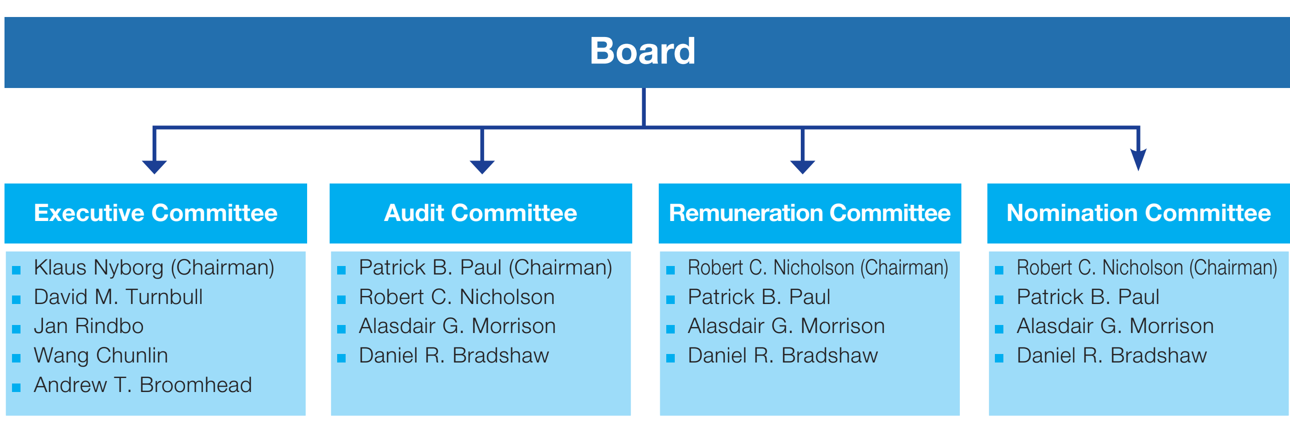
Note:

(1) Dr. Lee Kwok Yin, Simon was absent for health reasons and passed away on 18 February 2010.

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.

Board Committees

The Board has established Audit, Remuneration and Nomination Committees in accordance with the Code and 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 available on the Company's website.



A young Pacific Basin fan admires the newly delivered "Tiwai Point" in Hong Kong

The Audit Committee

Membership

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.

Main Responsibilities

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.

Work Done in 2009

The Audit Committee held four meetings during the year and its work included reviews of:

- the 2008 annual report and annual results announcement with a recommendation to the Board for approval;
- the external auditors' audit committee report in respect of the 2008 full year audit and 2009 interim audit;
- the external auditors' 2009 audit strategy memorandum and approval of the 2009 audit plan;
- the 2009 interim report and interim results announcement;
- the external auditors' internal control memorandum and the follow up actions by the management;
- the progress and results of management's self assessment of risks and internal controls;
- the Risk Management work plan for 2010;
- the amendments to the terms of reference of the Audit Committee;
- the amendments to the terms of reference of the Risk Management Committee;
- the independence of all Independent Non-executive Directors;
- connected party transactions;
- the adequacy of qualification and experience of staff of the accounting and financing reporting function;
- group treasury manual, bunker hedging policy and insurance policies; and
- key changes to accounting standards.

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

The Remuneration Committee

Membership

The Remuneration Committee consists of all three Independent Non-executive Directors, namely Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul and Mr. Alasdair G. Morrison, and one Non-executive Director, namely Mr. Daniel R. Bradshaw. Dr. Lee Kwok Yin, Simon was a Committee member until 18 February 2010.

Main Responsibilities

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.

Work Done in 2009

The Remuneration Committee held one meeting during the year and its work included the following matters:

- approval of 2008 year end bonuses for Executive Directors and senior management;
- grant of restricted shares under the Long Term Incentive Scheme to Executive Directors and staff members;
- approval of the treatment of the restricted share awards of a resigning Executive Director and his 2010 remuneration when he became a Non-executive Director; and
- approval of remuneration of the Executive Directors and Senior Management effective from 1 January 2010.

The Nomination Committee

Membership

The Nomination Committee consists of all three Independent Non-executive Directors, namely Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul and Mr. Alasdair G. Morrison, and one Non-executive Director, namely Mr. Daniel R. Bradshaw. Dr. Lee Kwok Yin, Simon was a Committee member until 18 February 2010.

Main Responsibilities

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

Membership

The Executive Committee consists of all four Executive Directors and the Chief Financial Officer: Board Chairman Mr. David M. Turnbull, Chief Executive Officer Mr. Klaus Nyborg (Committee Chairman), Chief Operating Officer Mr. Jan Rindbo, Executive Director Mr. Wang Chunlin and Chief Financial Officer Mr. Andrew T. Broomhead (appointed on 1 January 2010). Mr. Richard M. Hext ceased to be the Committee Chairman when he resigned as the Chief Executive Officer and an Executive Director on 31 December 2009.

Main Responsibilities

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 inward charters; (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; 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 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 Group'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:

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 Risk Management Committee 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 Risk Management Committee 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 determined by reference to the risk 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 whether the documented control processes have operated throughout the period being reviewed, and identifying whether there are any control weaknesses. The Risk Manager, on behalf of the RMC, co-ordinates 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 functions other than their own.

Internal Control System Effectiveness

The Board is responsible for the Group's system of internal controls and for reviewing its effectiveness. The internal controls' system is designed for the identification and management of risks that are significant to the fulfillment of the Group's 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 2009, the Board has reviewed the internal control systems of the Group and no significant areas of concern were identified.

"Tiwai Point" taking on bunkers at anchorage in Hong Kong

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 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 (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 during the reporting year.

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 (the "Dealing Rules"). These senior managers and staff have been individually notified and provided with a copy of the Dealing Rules.

No incident of non-compliance by these senior managers and staff was noted by or reported to the Company during the reporting year.

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 2009 is as follows:

	US$'000
Audit	1,440
Non-audit	329
Total	1,769

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

David M. Turnbull

age 54 Chairman

David Turnbull graduated from Cambridge University with an honours degree in Economics. He then joined the Swire Group and held various senior management positions during his 30 years with the group. He has held the following positions in Hong Kong publicly listed companies: chairman of Swire Pacific Ltd., Cathay Pacific Airways Ltd., and Hong Kong Aircraft Engineering Company Ltd.; a non-executive director of the Hongkong and Shanghai Banking Corporation, Hysan Development Co. Ltd. and Air China Ltd. He is an independent non-executive director of Green Dragon Gas Limited, listed on the AIM market of the London Stock Exchange and of Hong Kong-listed Sands China Limited. He is chairman of Seabury Aviation and Aerospace Asia (Hong Kong) Ltd., a subsidiary of Seabury Group LLC. He 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.

Klaus Nyborg

age 46 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 Danish ship owning and operating group listed in Copenhagen and on NASDAQ in New York) 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. He was appointed Chief Executive Officer on 1 January 2010.

Jan Rindbo

age 35 Chief Operating Officer

Jan Rindbo, graduated from Naestved Business College in Denmark in 1993. In 1994 following his military service, he joined TORM, a Danish ship owning and operating group listed in Copenhagen and on NASDAQ in New York. He served with TORM in Denmark, Hong Kong and the US before returning to Hong Kong in 2001 to head Pacific Basin's chartering and commercial dry bulk operations. He was initially seconded by TORM to the Company and became fully employed by the Group in 2004. He attended the International Executive Development programme at INSEAD in 2007. Mr. Rindbo's term as an Executive Director commenced in April 2007. He was appointed Chief Operating Officer on 1 January 2010 with responsibility for the Company's dry bulk activities including asset management (sale and purchase) and the technical operation of the Group's dry bulk fleet.

Wang Chunlin

age 46 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.

Non-executive Directors

Daniel R. Bradshaw

age 63

Daniel Bradshaw graduated from Victoria University of Wellington (New Zealand) with a Bachelor of Laws and a Master of Laws 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), as a solicitor, a partner, the head of the firm's shipping practice and now as a consultant. He was vice chairman of the Hong Kong Shipowners Association, a member of the Hong Kong Port and Maritime Board and the Hong Kong Maritime Industry Council. 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 82 M.B.E., J.P. (passed away on 18 February 2010)

Dr. Lee was 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 had served extensively on marine-related government committees, including a term as chairman of the shipping & transport committee of the Hong Kong General Chamber of Commerce. He had 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. Dr. Lee passed away on 18 February 2010.

Richard M. Hext

age 52

Richard Hext is deputy chairman and CEO of the Vanderperre family shipping interests. He was formerly Deputy Chairman (2005 to 2006) and CEO (2006 to 2009) of Pacific Basin; he was appointed as a Non-executive Director of Pacific Basin after stepping down as CEO on 31 December 2009. He is also a non-executive director of The China Navigation Company Ltd., a wholly owned subsidiary of John Swire & Sons Ltd. From 2003 to 2004, he was CEO of the Marine Services Division of V Ships Ltd. and from 2001 to 2002, the CEO of Levelseas Ltd. From 1978 to 2000 he worked for various subsidiaries and associates of John Swire & Sons Ltd. including P&O Swire Containers, Steamships Trading, Swire Pacific Offshore and The China Navigation Company Ltd. where he was managing director from 1996 to 2000. During 1999 to 2000 he was a director of John Swire & Sons (HK) Limited which controls the Hong Kong-listed Swire Pacific Limited and of Modern Terminals Limited, Hong Kong Salvage and Towage and Hong Kong United Dockyard. Mr. Hext obtained a Bachelor of Arts (subsequently Master of Arts) from Worcester College, Oxford University and has attended executive programmes at INSEAD, Oxford University, Tsinghua University and Stanford University.

Independent Non-executive Directors

Robert C. Nicholson

age 54

Robert Nicholson, a graduate of the University of Kent, qualified as a solicitor in England and Wales and in Hong Kong. He is an executive director of First Pacific Company Limited. He was a senior partner of Richards Butler where he established the corporate and commercial department. He was also a senior advisor to the board of directors of PCCW Limited. He is an independent non-executive director of QPL International Holdings Limited, Pacific Basin Shipping Limited and 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 Metro Pacific Investments Corporation, Pitkin Petroleum Plc, Philex Mining Corporation and Level Up! International Holdings Pte Ltd.

Patrick B. Paul

age 62

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 61

Alasdair Morrison obtained a Bachelor of Arts (subsequently Master of Arts) from Cambridge University and also attended the Program for Management Development at Harvard Business School. Mr. Morrison occupied the following senior positions in Morgan Stanley: a managing director of Morgan Stanley Dean Witter Asia Limited, a member of the bank's global management committee, chairman of Morgan Stanley Asia and, from 2002 to February 2006, concurrently chairman and chief executive officer of Morgan Stanley Asia. Prior to joining Morgan Stanley, he worked for the Jardine Matheson Group occupying various senior positions including that of group managing director from 1994 to 2000. He is currently a senior advisor to Citigroup Asia Pacific, the non-executive chairman of private equity firm Kang & Company and of North Asia Investment Corporation, a non-executive director of Hong Kong Mercantile Exchange Limited and 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.

In Memory of Dr. Simon K.Y. Lee, M.B.E., J.P.

With deepest sorrow, we mourn the passing of our dear friend, Dr. Simon Lee, who passed away on 18 February 2010.

He was not only a Non-executive Director of Pacific Basin, but had also been a substantial shareholder, a former chairman, and an investor in Pacific Basin for 20 years. Most of all, however, he was a great friend of the Company to which he contributed valuable guidance and tremendous support over many years since our founding in 1987.

We will long remember the wise and humble way in which Dr. Lee headed his family's Sun Hing Group of Companies, and his commendable public service to Hong Kong and the various industries in which his family business was involved. We will continue to be especially inspired by his many philanthropic projects and the personal interest and generosity he showed towards numerous charitable and other causes. Childhood cancer research, elderly care, and research and treatment of deafness, blindness and liver disease are just some of the causes he helped with great passion.

We are proud to have had such an upright, community-minded and considerate man as one of our Company's staunchest supporters. He will be dearly missed by everyone at Pacific Basin.

Senior Management

Andrew T. Broomhead

age 48 Chief Financial Officer and Company Secretary

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 17 years. Mr. Broomhead joined Pacific Basin in April 2003 as the Group's Chief Financial Officer and Company Secretary.

Charles Maltby

age 38 Managing Director, UK; Director, Handymax

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.

Chanakya Kocherla

age 52 Managing Director, PB Towage

Chanakya Kocherla joined Pacific Basin in December 2000, as part of the acquisition of Jardine Ship Management by Pacific Basin. He was Managing Director of PB Maritime Services, in charge of day-to-day operations of Pacific Basin's owned and technically managed fleet. His responsibilities included technical operations, manning and training, newbuildings and the performance and standards of the fleet in matters of health, safety and the environment. On 1 March 2010, Mr. Kocherla assumed his new position as Managing Director of PB Towage. He has 31 years of industry experience including 14 years at sea and experience with several ship types both at sea and ashore. He represents the company at the technical committees of ClassNK and the Hong Kong Shipowners Association and both the technical and the asian shipowners committees of Lloyd's Register of Shipping.

Danish Sultan

age 49 Managing Director, PacMarine Services

Danish Sultan is a Master Mariner who, after a successful career and command at sea, joined PacMarine Services in 1995 (a fully owned subsidiary of Pacific Basin). Using his expertise in cargoes and vessels, in particular tanker vessels, he led the business development and expansion of PacMarine Services placing it as a leader in its field. He holds accreditation from OCIMF and CDI and is only one of 29 OCIMF auditors worldwide. Mr. Sultan was promoted to Managing Director of the PacMarine Services Group in 2004. He is a member of the Chartered Institute of Logistics and Transport.

Ian Dalgleish

age 49 Managing Director, PB Towage (resigned)

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 and RoRo vessels before joining BHP's chartering team in 1993. He was seconded 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 freight desk for BHP Billiton. Mr. Dalgleish joined Pacific Basin in February 2004 to establish the Group's dry bulk shipping business in Melbourne. In August 2007 he relocated to Hong Kong and took responsibility for the operation, management and development of Pacific Basin's towage and offshore businesses. Mr. Dalgleish has resigned from the Company and his responsibility for PB Towage was transferred to Mr. Chanakya Kocherla with effect from 1 March 2010.

"Port Pegasus" discharging grain in Melbourne, Australia

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 further annual equity awards 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 2009 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
2009						
David M. Turnbull	**225**	**187**	**2**	**414**	**276**	**690**
Richard M. Hext [(a)]	**710**	**573**	**2**	**1,285**	**97**	**1,382**
Klaus Nyborg	**609**	**658**	**2**	**1,269**	**264**	**1,533**
Jan Rindbo	**370**	**461**	**2**	**833**	**344**	**1,177**
Wang Chunlin	**354**	**205**	**24**	**583**	**303**	**886**
Total	**2,268**	**2,084**	**32**	**4,384**	**1,284**	**5,668**
2008						
David M. Turnbull [(b)]	124	146	1	271	140	411
Christopher R. Buttery [(c)]	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
Jan Rindbo	399	433	2	834	516	1,350
Wang Chunlin	391	326	42	759	420	1,179
Total	2,594	2,593	50	5,237	1,676	6,913

(a) Mr. Hext resigned as an Executive Director on 31 December 2009. He was appointed as a Non-executive Director on 1 January 2010.

(b) 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.

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

3. Non-executive Directors' Remuneration

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

	2009 US$'000	2008 US$'000
Non-executive Directors		
Daniel R. Bradshaw	**71**	71
Dr. Lee Kwok Yin, Simon	**45**	45
	116	116
Independent Non-executive Directors		
Robert C. Nicholson	**71**	71
Patrick B. Paul	**71**	71
David M. Turnbull (became Executive Director on 1 July 2008)	**–**	48
Alasdair G. Morrison	**71**	71
	213	261
Total	**329**	377

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 2009 is shown below:

	2009 US$'000	2008 US$'000
Directors' fees	**329**	377
Salaries	**2,268**	2,594
Bonus	**2,084**	2,593
Retirement benefit costs	**32**	50
Total payable	**4,713**	5,614
Share-based compensation	**1,284**	1,676
Total	**5,997**	7,290

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 (2008: six) senior management and charged in the financial statements for the year ended 31 December 2009 is shown below:

	2009 US$'000	2008 US$'000
Salaries	**1,480**	1,691
Bonus	**1,281**	1,364
Retirement benefit costs	**129**	168
Total payable	**2,890**	3,223
Share-based compensation	**731**	1,066
Total	**3,621**	4,289

6. Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2009 include four Directors (2008: four) whose emoluments are reflected in section 2 of this Remuneration Report.

The emoluments of the one (2008: one) remaining highest paid individual shown below fell within the emolument band of HK$6,000,001 – HK$6,500,000 (2008: HK$7,000,001 – HK$7,500,000).

	2009 US$'000	2008 US$'000
Salaries	**260**	320
Bonus	**479**	325
Retirement benefit costs	**1**	2
Total payable	**740**	647
Share-based compensation	**33**	278
Total	**773**	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 2009.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The Company's principal subsidiaries (set out in Note 38 to the financial statements) are principally engaged in the provision of dry bulk (primarily vessel owning and vessel chartering) and RoRo shipping services, and services to the energy & infrastructure sector, which are carried out internationally. In addition, the Group is engaged in the management and investment of the Group's cash and deposits through its treasury activities.

Results and Appropriations

The results of the Group for the year are set out in the consolidated income statement on page 85.

As set out in the interim report, the Board remains committed to our existing dividend policy of paying out a minimum of 50% of profits excluding vessel disposal gains. Taking into consideration the Group's performance and current financial position, the Directors have recommended the payment of a final dividend of HK 15 cents per Share for the year ended 31 December 2009. When this proposed dividend is aggregated with the interim dividend of HK 8 cents per Share declared on 11 August 2009, the total payout of HK 23 cents per Share represents 51% of the Group's profits for the year ended 31 December 2009. The proposed final dividend for 2009 of HK 15 cents per Share will be considered at the 2010 Annual General Meeting scheduled on 22 April 2010.

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$89,000.

Placing of New Shares

On 20 May 2009, the Company issued 174,731,010 new Shares at a price of HK$4.36 per Share, representing 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$97.1 million (or HK$752.3 million). The purpose of the placing was to provide equity financing for the Group's expansion initiatives including purchasing assets, mainly dry bulk vessels or companies, at attractive prices at the right time.

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 2009, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$626.5 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 1,025 units of the Group's convertible bonds at face value of US$10,000 each in January 2009 at an average price of US$8,210 per unit. The purchase involved a total cash outlay of US$8,415,250 excluding accrued interest of US$153,702 and was for the purpose of saving potential repayments of US$1.8 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 and other than for satisfying restricted share awards granted under the LTIS as disclosed below, neither the Company nor any of its subsidiaries has, during the year, purchased, sold or redeemed any of the securities of the Company.

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 and recognition for their contribution to the Group. The LTIS incentivises performance of participants by linking their incentive 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 6.57% 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 16,716,754 restricted shares not vested under the LTIS which represents 0.93% 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 2009 under the LTIS are as follows:

(i) Share Options

Share options were granted on 14 July 2004 at an exercise price of HK$2.5 per Share. They were fully vested and will expire on 14 July 2014.

	Number of share options		
	At 1 January 2009	Exercised during the year	At 31 December 2009
Other Employees	1,178,000	–	1,178,000

(ii) Restricted Share Awards

	Number of restricted share awards				
	At 1 January 2009	Granted during the year	Vested during the year	Lapsed during the year	At 31 December 2009
Executive Directors					
David M. Turnbull [1]	351,000	299,000	(117,000)	–	533,000
Richard M. Hext [2]	2,058,500	890,000	(870,746)	(1,207,000)	870,754
Klaus Nyborg [3]	1,500,000	802,000	(500,000)	–	1,802,000
Jan Rindbo [4]	839,000	485,000	(340,000)	–	984,000
Wang Chunlin [5]	965,000	467,000	(350,000)	–	1,082,000
	5,713,500	2,943,000	(2,177,746)	(1,207,000)	5,271,754
Senior Management [6]	2,080,000	1,236,000	(737,000)	(350,000)	2,229,000
Other Employees [7]	6,696,000	5,961,000	(2,442,500)	(429,000)	9,785,500
	14,489,500	10,140,000	(5,357,246)	(1,986,000)[8]	17,286,254

Notes:

(1) An aggregate of 650,000 Shares have been granted to Mr. Turnbull since 5 August 2008, of which (i) 117,000 Shares have vested, (ii) an equal amount of 117,000 Shares will vest on each of 2 July 2010 and 2011, and (iii) 299,000 Shares will vest on 14 July 2012.

(2) An aggregate of 5,560,741 Shares have been granted to Mr. Hext since 8 June 2005, of which (i) 3,482,987 Shares have vested, (ii) 870,754 Shares will vest on 5 April 2010, and (iii) 1,207,000 Shares have lapsed on 31 December 2009 due to his resignation as an Executive Director on the date.

(3) An aggregate of 3,302,000 Shares have been granted to Mr. Nyborg since 19 September 2006, of which (i) 1,500,000 Shares have vested, (ii) an equal amount of 500,000 Shares will vest on each of 4 September 2010 and 2011, and (iii) 802,000 Shares will vest on 14 July 2012.

(4) An aggregate of 1,664,000 Shares have been granted to Mr. Rindbo since 11 May 2007, of which (i) 680,000 Shares have vested, (ii) 350,000 Shares will vest on 14 July 2010, (iii) 149,000 Shares will vest on 14 July 2011, and (iv) 485,000 Shares will vest on 14 July 2012.

(5) An aggregate of 1,892,000 Shares have been granted to Mr. Wang since 9 March 2006, of which (i) 920,000 Shares have vested (inclusive of 110,000 Shares vested on 1 March 2010), (ii) 250,000 Shares will vest on 14 July 2010, (iii) 110,000 Shares will vest on 1 March 2011, (iv) 145,000 Shares will vest on 14 July 2011, and (v) 467,000 Shares will vest on 14 July 2012.

(6) Of the total 2,229,000 Shares held by Senior Management at 31 December 2009,
(i) an equal amount of 50,000 Shares will vest on each of 23 August 2010 and 2011,
(ii) an equal amount of 80,000 Shares will vest on each of 1 March 2010 and 2011,
(iii) an equal amount of 77,000 Share will vest on each of 1 April 2010 and 2011,
(iv) 450,000 Shares will vest on 14 July 2010,
(v) 308,000 Shares will vest on 14 July 2011, and
(vii) 1,057,000 Shares will vest on 14 July 2012.

(7) Of the total 9,785,500 Shares held by Other Employees at 31 December 2009,
(i) an equal amount of 33,000 Shares will vest on each of 24 July 2010 and 2011,
(ii) an equal amount of 40,000 Shares will vest on each of 23 August 2010 and 2011,
(iii) 23,000 Shares will vest on 1 March 2010,
(iv) an equal amount of 142,500 Shares will vest on each of 1 March 2010 and 2011,
(v) 2,910,500 Shares will vest on 14 July 2010,
(vi) 1,721,000 Shares will vest on 14 July 2011, and
(vii) 4,700,000 Shares will vest on 14 July 2012.

(8) 1,986,000 Shares have lapsed due to resignation of an Executive Director and one Senior Management and termination of employment of three employees during the year.

The closing price of the Shares of the Company immediately before the grant of an aggregate of 10,140,000 restricted share awards on 9 June 2009 was HK$5.37 per Share.

(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 options per share option HK$	Number of shares as at date of grant
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 (Chairman of the Board)	17 May 2006	–	–	–	1 July 2008	3 years from 17 May 2008
Klaus Nyborg[2] (Chief Executive Officer & Chairman of the Executive Committee)	4 September 2006	–	–	–	4 September 2006	3 years from 4 September 2009
Jan Rindbo[3] (Chief Operating Officer)	1 April 2007	–	–	–	23 January 2008	3 years from 1 April 2009
Wang Chunlin	1 September 2006	–	–	–	1 September 2006	3 years from 1 September 2008
Non-executive Directors						
Daniel R. Bradshaw	7 April 2006	7 April 2006	7 April 2006	7 April 2006	–	3 years from 7 April 2009
Richard M. Hext[4]	5 April 2005	–	–	–	–	3 years from 5 April 2008
Independent Non-executive Directors						
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 2009
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
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. Nyborg was appointed the Chief Executive Officer and the Chairman of the Executive Committee on 1 January 2010.

(3) Mr. Rindbo has become the Chief Operating Officer since 1 January 2010.

(4) Mr. Hext resigned as the Chief Executive Officer and an Executive Director on 31 December 2009 when he ceased his chairmanship of the Executive Committee and was appointed as a Non-executive Director with effect from 1 January 2010.

Messrs. Wang Chunlin, Richard M. Hext and Alasdair G. Morrison will retire at the forthcoming 2010 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 addition, in accordance with Bye-law 86(2) of the Company, Mr. Patrick B. Paul whose term of appointment was extended by the Board, being eligible, will offer himself for re-election at the forthcoming 2010 Annual General Meeting.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming 2010 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 and Senior Management" 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 2009, 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	Long/ Short Position	Number of underlying Shares under equity derivatives	Total Share interests	Approximate percentage of issued share capital of the Company
David M. Turnbull [1]	–	533,000	–	502,629 [2]	Long Position	–	1,035,629	0.05%
Klaus Nyborg [1]	–	1,802,000	–	–	Long Position	–	1,802,000	0.09%
Jan Rindbo [1]	–	2,605,370	–	–	Long Position	–	2,605,370	0.14%
Wang Chunlin [1]	–	1,702,000	–	–	Long Position	–	1,702,000	0.09%
Daniel R. Bradshaw	386,417 [3]	–	–	–	Long Position	–	386,417	0.02%
Richard M. Hext [1]	–	871,501	–	–	Long Position	–	871,501	0.05%
Dr. Lee Kwok Yin, Simon	–	–	162,138 [4]	39,350,103 [4]	Long Position	–	39,512,241 [4]	2.04%
	–	–	–	11,032,000	Short Position	–	11,032,000	0.57%
Alasdair G. Morrison	–	608,019 [5]	–	–	Long Position	–	608,019	0.03%

Notes:

(1) *Restricted share awards were granted under the LTIS and have been disclosed from page 73 to page 74 under the Long Term Incentive Scheme of this Report of the Directors.*

(2) 502,629 Shares are held by The Pacific 08 Trust, of which Mr. Turnbull is a founder, in the form of 124 units of convertible bonds at face value of US$10,000 each.

(3) 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.

(4) 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 37,526,047 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 37,526,047 Shares stated above, 9,885,536 Shares, 25,052,411 Shares and 2,588,100 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.

(5) Mr. Morrison's personal interests of 608,019 Shares are held in the form of 150 units of convertible bonds at face value of US$10,000 each.

Except 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 2009, 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	Long/Short Position	Number of Shares	Approximate percentage of the issued share capital of the Company
Compagnie de Navigation Canadian Forest Ltee. Canadian Forest Navigation Co. Ltd.	Beneficial owner	Long Position	196,849,000	10.21%
JP Morgan Chase & Co. [1]	Beneficial owner, investment manager and custodian corporation/ approved lending agent	Long Position Short Position	192,302,234 15,970,100	9.97% 0.83%
UBS AG [2]	Beneficial owner, Person having a security interest in Shares and Interest in corporation controlled	Long Position Short Position	139,621,583 5,062,000	7.24% 0.26%

Notes:

(1) *The Shares held by JP Morgan Chase & Co. are held in the capacities of beneficial owner (relating to 23,228,984 Shares), investment manager (relating to 112,713,789 Shares) and custodian corporation/approved lending agent (relating to 56,359,461 Shares).*

(2) *The Shares held by UBS AG are held in the capacities of beneficial owner (relating to 83,394,637 Shares), person having a security interest in Shares (relating to 9,973,000 Shares) and interest in corporation controlled (relating to 46,253,946 Shares).*

Save as disclosed above, as at 31 December 2009, 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 confirmed it 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 Transaction

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 an appointment letter dated 4 June 2004, as amended by a first supplemental agreement dated 12 September 2006 and further amended by a second supplemental agreement dated 2 December 2009, until 31 December 2012 ("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, a former Director 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 2009, premiums payable to Sun Hing amounted to US$0.4 million which is within the approved cap of US$1.10 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.

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 2010

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 82 to 153, which comprise the consolidated and company balance sheets as at 31 December 2009, and the consolidated income statement, the consolidated statement of comprehensive income, 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 2009 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 2010

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	2009 *US$'000*	2008 *US$'000*
Non-current assets			
Property, plant and equipment	6	**997,961**	794,622
Investment properties	7	**2,600**	–
Land use rights	8	**3,864**	3,035
Goodwill	9	**25,256**	25,256
Interests in jointly controlled entities	11	**49,615**	50,806
Investments in associates	12	**3,249**	2,864
Available-for-sale financial assets	13	**62,016**	43,454
Derivative assets	14	**6,879**	23,800
Trade and other receivables	15	**8,232**	9,517
Restricted bank deposits	16	**40,084**	4,757
Other non-current assets	17	**59,887**	56,238
		1,259,643	1,014,349
Current assets			
Inventories	18	**33,858**	24,291
Derivative assets	14	**20,336**	55,797
Assets held for sale		**–**	65,891
Trade and other receivables	15	**90,478**	151,193
Restricted bank deposits	16	**16,483**	44,108
Cash and deposits	16	**1,049,095**	974,876
		1,210,250	1,316,156
Current liabilities			
Derivative liabilities	14	**10,505**	30,917
Trade and other payables	19	**111,740**	154,691
Current portion of long term borrowings	20	**54,728**	58,679
Taxation payable		**3,737**	3,553
Provision for onerous contracts	21	**–**	28,179
		180,710	276,019
Net current assets		**1,029,540**	1,040,137
Total assets less current liabilities		**2,289,183**	2,054,486

CONSOLIDATED BALANCE SHEET

As at 31 December 2009

	Note	2009 US$'000	2008 US$'000
Non-current liabilities			
Derivative liabilities	14	**9,735**	20,898
Long term borrowings	20	**821,850**	789,133
Provision for onerous contracts	21	**2,031**	25,753
		833,616	835,784
Net assets		**1,455,567**	1,218,702
Equity			
Capital and reserves attributable to shareholders			
Share capital	22	**192,708**	174,714
Retained profits	23	**659,339**	568,648
Other reserves	23	**603,520**	475,340
Total equity		**1,455,567**	1,218,702

Approved by the Board of Directors on 2 March 2010

Klaus Nyborg
Director

Jan Rindbo
Director

BALANCE SHEET OF THE COMPANY

As at 31 December 2009

	Note	2009 US$'000	2008 US$'000
Non-current assets			
Investments in subsidiaries	10	**223,931**	223,931
Current assets			
Prepayments and other receivables		**142**	157
Amounts due from subsidiaries	10	**1,503,278**	1,197,190
Cash and cash equivalents	16	**13**	15
		1,503,433	1,197,362
Current liabilities			
Accruals and other payables		**334**	115
Amount due to a subsidiary	10	**312,814**	331,749
		313,148	331,864
Net current assets		**1,190,285**	865,498
Total assets less current liabilities		**1,414,216**	1,089,429
Equity			
Share capital	22	**192,708**	174,714
Retained profits	23	**626,510**	402,858
Other reserves	23	**594,998**	511,857
Total equity		**1,414,216**	1,089,429

Approved by the Board of Directors on 2 March 2010

Klaus Nyborg
Director

Jan Rindbo
Director

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2009

	Note	2009 *US$'000*	2008 *US$'000*
Revenue	5	**950,477**	1,690,948
Direct costs	24	**(797,681)**	(1,332,351)
Gross profit		**152,796**	358,597
General and administrative expenses	24	**(12,292)**	(11,787)
Other income	25	**110,477**	163,921
Other expenses	24	**(116,280)**	(229,297)
(Losses)/gains on disposal of property, plant and equipment	32(b)	**(2,522)**	149,818
Finance costs, net	27	**(27,321)**	(22,125)
Share of profits less losses of jointly controlled entities	11	**7,246**	3,568
Share of losses of associates	12	**(103)**	(287)
Profit before taxation		**112,001**	412,408
Taxation	28	**(1,723)**	(3,618)
Profit for the year		**110,278**	408,790
Attributable to:			
Shareholders		**110,278**	409,119
Minority interests		**–**	(329)
		110,278	408,790
Dividends	30	**57,222**	170,142
Earnings per share for profit attributable to shareholders			
Basic	31(a)	**US 5.94 cents**	US 24.29 cents
Diluted	31(b)	**US 5.93 cents**	US 24.28 cents

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2009

	2009 ***US$'000***	2008 *US$'000*
Profit for the year	**110,278**	408,790
Other comprehensive income, net of tax:		
Currency translation differences	**24,949**	(21,207)
Cash flow hedges:		
– fair value (losses)/gains	**(146)**	21,760
– transferred to property, plant and equipment	**(1,729)**	(8,176)
– transferred to finance costs in consolidated income statement	**2,731**	337
Fair value gains on available-for-sale financial assets	**20,121**	–
Gains on repurchase and cancellation of convertible bonds	**325**	1,589
Total comprehensive income for the year	**156,529**	403,093
Attributable to:		
– Shareholders	**156,529**	403,510
– Minority interests	**–**	(417)
Total comprehensive income for the year	**156,529**	403,093

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2009

	Note	Capital and reserves attributable to shareholders *US$'000*	Minority interests *US$'000*	Total *US$'000*
Balance at 1 January 2009		**1,218,702**	**–**	**1,218,702**
Shares purchased by trustee of the LTIS	22	**(1,296)**	**–**	**(1,296)**
Shares issued upon placing of new shares, net of issuing expenses	22(c)	**97,054**	**–**	**97,054**
Share-based compensation		**5,377**	**–**	**5,377**
Repurchase and cancellation of convertible bonds	20(c)	**(887)**	**–**	**(887)**
Dividends paid	30	**(19,912)**	**–**	**(19,912)**
Total comprehensive income for the year		**156,529**	**–**	**156,529**
Balance at 31 December 2009		**1,455,567**	**–**	**1,455,567**
Balance at 1 January 2008		867,136	431	867,567
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		270,952	–	270,952
Share-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)
Total comprehensive income for the year		403,510	(417)	403,093
Balance at 31 December 2008		1,218,702	–	1,218,702

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 December 2009

	Note	2009 *US$'000*	2008 *US$'000*
Operating activities			
Cash generated from operations	32(a)	**147,003**	460,696
Hong Kong profits tax paid		**(1,425)**	(980)
Overseas taxation paid		**(241)**	(633)
Net cash from operating activities		**145,337**	459,083
Investing activities			
Acquisition of subsidiaries and businesses, net of cash acquired		**–**	(16,366)
Purchase of property, plant and equipment		**(274,891)**	(321,994)
Disposal of property, plant and equipment	32(b)	**17,574**	313,540
Purchase of assets held for sale		**(21,790)**	–
Disposal of assets held for sale		**87,681**	–
Purchase of land use rights		**(888)**	(2,648)
Purchase of investment properties		**(292)**	–
Adjustment for contingent consideration paid for acquisition of subsidiaries		**–**	(187)
Investments in jointly controlled entities		**–**	(28,461)
Disposal of jointly controlled entities		**12**	1,628
Increase in loan to a jointly controlled entity		**(24,298)**	(40,000)
Loan repayment received from jointly controlled entities		**54,200**	5,026
Dividends received from a jointly controlled entity		**15,240**	441
Acquisition of associates		**–**	(5,949)
Increase in loan to an associate		**(232)**	(1,191)
Refund/(payment) for available-for-sale financial assets		**1,559**	(66,502)
Payment for other non-current assets		**(3,649)**	(56,238)
Interest received		**11,433**	22,584
Receipt from forward foreign exchange contracts		**17,117**	–
Dividend received from financial assets at fair value through profit or loss		**–**	398
Increase in restricted bank deposits		**(7,699)**	(49,882)
Increase in notes receivable		**(50,000)**	–
Receipt of finance lease receivables – capital element		**1,147**	1,305
Net cash used in investing activities		**(177,776)**	(244,496)
Financing activities			
Proceeds from shares issued upon placing of new shares, net of issuing expenses	22(c)	**97,054**	270,952
Payment for repurchase and cancellation of convertible bonds	20(c)	**(8,569)**	(44,528)
Payment for shares purchased by trustee of the LTIS	22	**(1,296)**	(1,759)
Proceeds from shares issued upon exercise of share options		**–**	673
Repayment of bank loans		**(97,068)**	(31,029)
Drawdown of bank loans		**134,838**	347,800
Interest and other finance charges paid		**(35,366)**	(30,741)
Dividends paid to shareholders of the Company		**(19,912)**	(322,967)
Repayment of finance lease payables – capital element		**(13,963)**	(77,647)
Net cash from financing activities		**55,718**	110,754
Net increase in cash and cash equivalents		**23,279**	325,341
Cash and cash equivalents at 1 January		**974,876**	649,535
Exchange gains on cash and cash equivalents		**940**	–
Cash and cash equivalents at 31 December		**999,095**	974,876

1 General Information

Pacific Basin Shipping Limited (the "Company") and its subsidiaries (together the "Group") are principally engaged in the provision of dry bulk and RoRo shipping services and services to the energy and infrastructure sectors, which are carried out internationally. In addition, the Group is engaged in the management and investment of the Group's cash and deposits through its treasury activities.

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 2010.

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 2009, the Group adopted the new and amended standards, interpretations to the published standards and the improvements to HKFRS which are relevant to its operation.

HKAS 1 (Revised)	Presentation of financial statements
HKAS 1 (Amendment)	Presentation of financial statements
HKAS 23 (Revised)	Borrowing costs
HKFRS 1 and HKAS 27 (Amendments)	Cost of an investment in a subsidiary, jointly controlled entity or associate
HKFRS 2 (Amendments)	Vesting conditions and cancellations
HKFRS 7 (Amendments)	Improvement disclosure about financial instrument
HKFRS 8	Operating segments

2 Summary of Significant Accounting Policies (Continued)

2.1 Basis of preparation (continued)

Except for certain changes in presentation and disclosure of financial information as described below, the adoption of the above new and amended standards, interpretations and improvements do not have a significant effect on the financial statements or result in any significant changes to the Group's significant accounting policies.

- HKAS 1 (Revised), "Presentation of financial statements". The revised standard prohibits the presentation of income and expenses directly in the statement of changes in equity. All income and expenses are required to be shown in either one statement of comprehensive income or two statements (the income statement and the statement of comprehensive income). The Group has presented all income and expenses in two statements.

- HKAS 1 (Amendment), "Presentation of financial statements'. The amendment clarifies that derivatives classified as held for trading should be presented to show both current and non-current portions of the assets and liabilities. The Group has presented its trading derivatives as current or non-current according to their respective settlement dates. Comparative figures have been adjusted accordingly.

- HKFRS 7 (Amendments), "Improvement disclosure about financial instrument". The Group has adopted the disclosure requirement of three-level hierarchy for fair value measurement disclosures about financial instruments. The consolidated financial statements have been prepared under the amended disclosure requirements.

- HKFRS 8, "Operating segments". This standard replaces HKAS 14, "Segment reporting" by adopting a management approach under which segment information is presented on the same basis as that used for internal reporting provided to the chief operating decision-maker. In prior periods, the Group regarded its international dry bulk shipping segment as one dominant segment. The adoption of the standard has resulted in an increase in the number of reportable segments presented.

  Goodwill is allocated to groups of cash-generating units on a segment level. Comparatives for 2008 have been presented accordingly.

Certain new and amended standards, interpretations to the published standards and improvements to HKFRS are mandatory for accounting period beginning on or after 1 January 2010 or later periods. The Group was not required to adopt these new and amended standards, interpretations and improvements in the financial statements for the year ended 31 December 2009. The new and amended standards, interpretations and improvements that are relevant to the Group's operation are as follows:

HKAS 27 (Revised)	Consolidated and separate financial statements
HKAS 39 (Amendment)	Eligible hedged Items
HKFRS 1 (Revised)	First-time adoption of HKFRS
HKFRS 2 (Amendments)	Group cash-settled share-based payment transaction
HKFRS 3 (Revised)	Business combinations
HKFRS 9	Financial instruments
HK(IFRIC) 17	Distribution of non-cash assets to owners

The Group has already commenced an assessment of the impact of these new and amended standards, interpretations and improvements 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 Summary of Significant Accounting Policies (Continued)

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.

(ii) Transactions with 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.

2 Summary of Significant Accounting Policies (Continued)

2.2 Consolidation (continued)

(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

Management's approach to internal review and reporting to the Chief Executive Officer and Board, is used as the basis for preparing segment information of the Group's material operating segments.

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 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. Translation differences on non-monetary financial assets and liabilities such equities classified as available-for-sale are included in the investment valuation reserve.

(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 in each balance sheet are translated at the closing rate on the balance sheet date;

(b) income and expenses in 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 ("PP&E")

(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 30 years for RoRo vessels and 25 years for other vessels 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 is either 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 accrue to the Group and such expenditure can be measured reliably. The carrying amount of a replaced part is written off. 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 Investment properties

Investment properties comprising mainly buildings, are held for a combination of rental yields and capital appreciation. Investment properties are stated initially at cost and subsequently carried at cost less accumulated depreciation and accumulated impairment losses. Depreciation is calculated using a straight-line method to allocate their costs to their residual values over their estimated useful lives of 45 years. The residual values and useful lives of investment properties are reviewed, and adjusted if appropriate, at each balance sheet date.

2.7 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.

2.8 Impairment of investments in subsidiaries, jointly controlled entities and associates and non-financial assets

Assets that have an indefinite useful life, for example goodwill, are not subject to amortisation and are tested annually for impairment. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. In assessing whether there is any indication that an asset may be impaired, internal and external sources of information should be considered. If any such indication exists, the entity shall estimate the recoverable amount of the asset. 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 in the lowest levels at which there are separately identifiable cash flows. This level is described as a cash-generating units ("CGU"). Each CGU contains assets such as property, plant and equipment. The way in which assets are grouped to form CGU's and the related cash flows associated with the group may in certain circumstances affect whether an impairment loss is recorded. Generally, the larger the grouping of assets and the broader the grouping of independent cash flows, the less likely it is that an impairment loss will be recorded as reductions in one cash inflow are more likely to be offset by increases in other cash inflows within the same CGU.

Assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2 Summary of Significant Accounting Policies (Continued)

2.9 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.

(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 Note 2.9(ii)(b) for the accounting treatment.

2 Summary of Significant Accounting Policies (Continued)

2.9 Leases (continued)

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

(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 Note 2.9(i)(b) for the accounting treatment.

2.10 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. Derivatives are classified as current and non-current assets according to their respective settlement dates.

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 or other expenses 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)

2.10 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)

2.11 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.

2.12 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". When a trade receivable is uncollectable, it is written off against the provision for impairment.

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 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 in the income statement 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 handysize and handymax pools.

Revenues from the handysize and handymax pools 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.

2.23 Pool accounting

The Group generates its revenue principally from charter-hire, which to a large extent is conducted through the handysize and handymax pools. 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 in 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 Summary of Significant Accounting Policies (Continued)

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.

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 Summary of Significant Accounting Policies (Continued)

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.

2.27 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 an outflow of economic resources is probable, a provision is recognised.

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 cargo contracts 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 FFAs outstanding at the year end. As at 31 December 2009, the Group had derivative assets and liabilities in respect of FFAs of US$12.0 million (2008: US$61.8 million) and US$9.8 million (2008: US$5.3 million) respectively (Note 14(d)).

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$5.3 million (2008: US$7.5 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 16 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's hedging portfolio is reviewed and adjusted on a regular basis to adapt to changing market conditions.

As at 31 December 2009, 39% (2008: 39%) 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 2009, the Group had derivative assets and liabilities in respect of interest rate swap contracts of US$1.1 million (2008: nil) and US$7.8 million (2008: US$12.7 million) respectively (Note 14 (b)).

With all other variables held constant, if the average interest rate on net cash balance subject to floating interest rates, 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$5.0 million (2008: US$3.9 million).

3 Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(i) Market risk (continued)

(c) Bunker price risk

Bunker costs are part of the voyage expenses and are significant cost items to the Group. Much of the Group's chartering business is conducted through long term cargo contracts. 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 date a cargo contract is entered into and the date the cargo is carried.

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

As at 31 December 2009, the Group had derivative assets and liabilities in respect of bunker swap contracts of US$14.2 million (2008: US$0.3 million) and US$0.9 million (2008: US$33.8 million) respectively (Note 14(c)).

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$8.2 million (2008: US$5.4 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 2009, the Group had derivative assets and liabilities in respect of forward foreign exchange contracts of nil (2008: US$17.6 million) and US$1.7 million (2008: nil) respectively to cover the future payments denominated in Euros and Danish Kroner (Note 14(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 2009, the Group had available-for-sale financial assets of US$62.0 million (2008: US$43.5 million) (Note 13). 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$6.2 million (2008: US$4.3 million).

(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 2009.

The Group has limited credit and counterparty risk with its banks, financial institutions and derivative counterparties, which are leading, reputable and are assessed as having low credit risk. The Group mainly trades with banks, financial institutions and derivative counterparties with sound Standard & Poor's credit ratings. 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. 95% to 100% of dry bulk 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 creditworthiness 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 cash portfolio and ensures that sufficient borrowing facilities are available to meet existing and future commitments. In addition, surplus cash beyond the minimum liquidity needs will be held according to the Group's investment guidelines approved by the Board.

The table below analyses the maturity profile of the Group's financial liabilities, net-settled derivative financial instruments and gross-settled derivative 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)

	Group				
	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 2009					
Long term liabilities					
– Gross liabilities under finance lease	28,114	28,105	84,256	124,578	265,053
– Bank borrowings	49,453	51,817	181,670	171,065	454,005
– Convertible bonds	10,360	10,360	329,491	–	350,211
	87,927	90,282	595,417	295,643	1,069,269
Derivative financial instruments					
(i) Net-settled (Note a)					
– Interest rate swap contracts	4,923	2,797	2,359	90	10,169
– Bunker swap and forward contracts	644	279	–	–	923
– Forward freight agreements	8,714	542	556	–	9,812
	14,281	3,618	2,915	90	20,904
(ii) Gross-settled (Note b)					
Forward foreign exchange contracts					
– Cash flow hedges:					
– outflow	18,293	3,898	10,960	21,433	54,584
– inflow	(17,082)	(3,858)	(10,854)	(20,934)	(52,728)
Net outflow/(inflow)	1,211	40	106	499	1,856
Current liabilities					
Trade and other payables	84,684	–	–	–	84,684
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
Derivative financial instruments					
(i) Net-settled (Note a)					
– Interest rate swap contracts	1,984	2,649	4,956	4,193	13,782
– Bunker swap and forward contracts	25,632	6,398	1,734	–	33,764
– Forward freight agreements	5,284	23	–	–	5,307
	32,900	9,070	6,690	4,193	52,853
(ii) Gross-settled (Note b)					
Forward foreign exchange contracts					
– Cash flow hedges:					
– outflow	38,914	126,608	–	–	165,522
– inflow	(45,683)	(138,061)	–	–	(183,744)
Net outflow/(inflow)	(6,769)	(11,453)	–	–	(18,222)
Current liabilities					
– Trade and other payables	124,790	–	–	–	124,790

3 Financial Risk Management (Continued)

3.1 Financial risk factors (continued)

(iii) Liquidity risk (continued)

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

The Company was not exposed to any individual significant financial risk in 2008 and 2009.

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 the 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 to property, plant and equipment and the ratio of net cash to shareholders' equity as shown below.

	2009 ***US$'000***	2008 *US$'000*
Cash and deposits – gross (Note 16)	**1,105,662**	1,023,741
Less: Total long term borrowings (Note 20)	**(876,578)**	(847,812)
Net cash	**229,084**	175,929
Shareholders' equity	**1,455,567**	1,218,702
Net book value of property, plant and equipment (Note 6)	**997,961**	794,622
Net cash to shareholders' equity ratio	**16%**	14%
Net cash to property, plant and equipment ratio	**23%**	22%

3 Financial Risk Management (Continued)

3.3 Fair value estimation

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

(i) Effective 1 January 2009, the Group adopted the amendment to HKFRS 7 for financial instruments that are measured in the balance sheet at fair value. This requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (Level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (Level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (Level 3).

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2009.

	Level 1 *US$'000*	Level 2 *US$'000*	Level 3 *US$'000*	Total *US$'000*
Assets				
Derivative assets at fair value through profit or loss				
– Forward freight agreements	11,994	–	–	11,994
– Interest rate swap contracts	–	1,055	–	1,055
– Bunker swap contracts	–	14,166	–	14,166
Available-for-sale financial assets				
– Equity securities	57,813	–	4,203	62,016
Total assets	69,807	15,221	4,203	89,231
Liabilities				
Derivative liabilities at fair value through profit or loss				
– Forward freight agreements	9,812	–	–	9,812
– Interest rate swap contracts	–	5,170	–	5,170
– Bunker swap contracts	–	923	–	923
Derivative liabilities used for hedging				
– Interest rate swap contracts	–	2,647	–	2,647
– Forward foreign exchange contracts	–	1,688	–	1,688
Total liabilities	9,812	10,428	–	20,240

3 Financial Risk Management (Continued)

3.3 Fair value estimation (continued)

The following table presents the changes in level 3 financial instruments for the year ended 31 December 2009.

	Available-for-sale Financial Assets *US$'000*
At 1 January	6,672
Additions	633
Fair value loss	(910)
Return of capital	(2,192)
At 31 December	4,203

Amongst the derivative assets and liabilities held by the Group, the forward freight agreements are traded through a clearing house and its fair value is determined using forward freight rates at the balance sheet date. The rest of the derivative assets and liabilities are over-the-counter derivatives which are not traded in an active market. The fair values of forward foreign exchange contracts are determined using forward exchange market rates at the balance sheet date. The fair values of interest rate swap contracts and bunker swap contracts are quoted by dealers 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 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 prepared under fair value basis for unlisted equity securities.

(iv) The carrying values of amounts due from subsidiaries, trade and other receivables, cash and deposits 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, in 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$0.5 million in the next year.

4 Critical Accounting Estimates and Judgements (Continued)

(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.

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$5.7 million or increase by US$6.8 million in the next year.

(iii) Impairment of vessels and vessels under construction

The Group tests whether vessels and vessels under construction have suffered any impairment, in accordance with the accounting policy in note 2.8, whenever events or changes in circumstances indicate that the carrying amount might not be recovered. 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 and vessels under construction, to the higher of (i) the fair value less cost to sell, and (ii) the value-in-use. The fair value of the vessels and vessels under construction, is either determined by the market valuation mentioned above or by independent valuers.

The value-in-use of the vessels represents estimated future cash flows from the continuous use of the vessels, and requires complex assumptions and estimates such as future earnings from the vessels and discount rates. The discount rates used to discount the estimated future cash flows are based on the industry sector risk premium relevant for the CGU and the gearing ratio of the CGU.

With all other variables held constant, if the discount rates increase/decrease by 1% from the management estimate, the provision for impairment would increase/decrease by US$4.2 million. Similarly, if the estimation of future earnings for the uncovered periods increases/decreases by 10% from the management estimates in 2011 & 2012, the provision for impairment would decrease/increase by US$6.9 million.

(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$3,737,000 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.

4 Critical Accounting Estimates and Judgements (Continued)

(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.

(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 remain unchanged/increase by US$5.6 million in the next year.

5 Segment Information

	Pacific Basin Dry Bulk			PB Energy & Infrastructure Services				PB RoRo
	Handysize	Handymax	Total	PB Towage	FBSL	PacMarine	Total	
	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000
For the year ended 31 December 2009								
Revenue	581,487	322,994	904,481	49,564	7,831	11,019	68,414	3,271
Freight and charter-hire	581,487	322,994	904,481	48,842	–	–	48,842	3,271
Maritime management services	–	–	–	722	7,831	11,019	19,572	–
Bunker & port disbursements	(202,983)	(109,560)	(312,543)	(1,723)	–	–	(1,723)	–
Time charter equivalent earnings	378,504	213,434	591,938				66,691	3,271
Direct costs	(240,204)	(199,306)	(439,510)	(45,392)	(394)	(10,002)	(55,788)	(2,413)
Bunker & port disbursements	–	–	–	–	–	–	–	–
Charter-hire expenses for vessels	(148,579)	(189,320)	(337,899)	(2,482)	–	–	(2,482)	–
Vessel operating costs	(43,122)	(2,427)	(45,549)	(24,575)	–	–	(24,575)	(742)
Depreciation of vessels	(29,565)	(981)	(30,546)	(8,021)	–	–	(8,021)	(894)
Direct overheads	(18,938)	(6,578)	(25,516)	(10,314)	(394)	(10,002)	(20,710)	(777)
Gross profit	138,300	14,128	152,428	2,449	7,437	1,017	10,903	858
General and administrative expenses	–	–	–	–	–	–	–	–
Other income and expenses	–	–	–	(1,710)	(6,868)	–	(8,578)	–
Losses on disposal of PP&E	–	–	–	–	–	–	–	–
Finance costs, net	(14,175)	–	(14,175)	(1,867)	699	–	(1,168)	(801)
Share of profits less losses of jointly controlled entities	–	–	–	3,256	4,983	–	8,239	–
Share of losses of associates	–	–	–	(103)	–	–	(103)	–
Profit before taxation	124,125	14,128	138,253	2,025	6,251	1,017	9,293	57
Taxation	–	–	–	(1,009)	–	(63)	(1,072)	(2)
Profit for the year	124,125	14,128	138,253	1,016	6,251	954	8,221	55
Attributable to:								
Shareholders	124,125	14,128	138,253	1,016	6,251	954	8,221	55
Minority interests	–	–	–	–	–	–	–	–
	124,125	14,128	138,253	1,016	6,251	954	8,221	55
At 31 December 2009								
Total assets	711,780	55,343	767,123	206,430	60,210	4,366	271,006	258,569
Total assets include:								
Property, plant and equipment*	593,838	16,750	610,588	160,070	–	77	160,147	211,318
Investment in jointly controlled entities	–	–	–	10,164	23,218	–	33,382	–
Investment in associates	–	–	–	3,249	–	–	3,249	–
Total liabilities	261,532	33,349	294,881	55,137	–	1,870	57,007	66,467
Total liabilities include:								
Long term borrowings	199,386	–	199,386	40,773	–	–	40,773	64,589
* Include additions to property, plant and equipment	63,346	1,328	64,674	63,139	–	–	63,139	144,235

All Other Segments	Total Segments	Unallocated		Total	Reclass-ification	Per Financial Statements	
		Treasury	Others				
US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	Note
2,683	978,849	–	(54,026)	924,823	25,654	950,477	
–	956,594	–	(54,026)	902,568	25,654	928,222	1
2,683	22,255	–	–	22,255	–	22,255	
–	(314,266)	–	46,566	(267,700)	267,700	–	2
(5,537)	(503,248)	–	27,200	(476,048)	(321,633)	(797,681)	
–	–	–	–	–	(267,700)	(267,700)	2
–	(340,381)	–	27,200	(313,181)	(53,933)	(367,114)	3
–	(70,866)	–	–	(70,866)	–	(70,866)	
–	(39,461)	–	–	(39,461)	–	(39,461)	
(5,537)	(52,540)	–	–	(52,540)	–	(52,540)	
(2,854)	161,335	–	19,740	181,075	(28,279)	152,796	
–	–	–	(12,292)	(12,292)	–	(12,292)	4
–	(8,578)	1,547	(27,051)	(34,082)	28,279	(5,803)	1, 3, 5, 6
–	–	–	(2,522)	(2,522)	–	(2,522)	7
1,239	(14,905)	(15,376)	2,960	(27,321)	–	(27,321)	8
(2,329)	5,910	–	1,336	7,246	–	7,246	9
–	(103)	–	–	(103)	–	(103)	
(3,944)	143,659	(13,829)	(17,829)	112,001	–	112,001	
(649)	(1,723)	–	–	(1,723)	–	(1,723)	
(4,593)	141,936	(13,829)	(17,829)	110,278	–	110,278	
(4,593)	141,936	(13,829)	(17,829)	110,278	–	110,278	
–	–	–	–	–	–	–	
(4,593)	141,936	(13,829)	(17,829)	110,278	–	110,278	
110,220	1,406,918	1,036,035	26,940	2,469,893	–	2,469,893	1, 2
15,908	997,961	–	–	997,961	–	997,961	
12,905	46,287	–	3,328	49,615	–	49,615	9
–	3,249	–	–	3,249	–	3,249	
5,255	423,610	572,164	18,552	1,014,326	–	1,014,326	1, 2
–	304,748	571,830	–	876,578	–	876,578	
2,843	274,891	–	–	274,891	–	274,891	

The Group manages its businesses by divisions. Reports are presented to the division heads as well as the Board for the purpose of making strategic decisions, allocation of resource and assessing performance. The reportable operating segments on this page are consistent with the way in which information is presented.

The Group's revenue is primarily derived from the provision of dry bulk and RoRo shipping services, and services to the energy and infrastructure sectors. Pacific Basin Dry Bulk is further segregated into handysize and handymax vessels and PB Energy & Infrastructure Services is further segregated into PB Towage, Fujairah Bulk Shipping ("FBSL") and PacMarine Services ("PacMarine").

Although closely monitored, the results of the port projects and maritime services activities are included in the "all other segments" column as they do not meet the quantitative thresholds suggested by HKFRS.

Treasury manages the Group's cash and borrowings which are not considered to be an operating segment. As such, related finance income and expenses are allocated under treasury.

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

5 Segment Information (Continued)

	Pacific Basin Dry Bulk			PB Energy & Infrastructure Services				PB RoRo
	Handysize US$'000	Handymax US$'000	Total US$'000	PB Towage US$'000	FBSL US$'000	PacMarine US$'000	Total US$'000	US$'000
For the year ended 31 December 2008								
Revenue	1,005,088	642,894	1,647,982	27,977	2,403	10,492	40,872	–
Freight and charter-hire	1,005,088	642,894	1,647,982	27,822	–	–	27,822	–
Maritime management services	–	–	–	155	2,403	10,492	13,050	–
Bunker & port disbursements	(268,493)	(143,383)	(411,876)	(2,362)	–	–	(2,362)	–
Time charter equivalent earnings	736,595	499,511	1,236,106				38,510	–
Direct costs	(358,826)	(450,149)	(808,975)	(25,799)	(732)	(9,208)	(35,739)	(1,732)
Bunker & port disbursements	–	–	–	–	–	–	–	–
Charter-hire expenses for vessels	(262,731)	(434,076)	(696,807)	–	–	–	–	–
Vessel operating costs	(43,853)	(4,313)	(48,166)	(14,653)	–	–	(14,653)	–
Depreciation of vessels	(29,849)	(3,178)	(33,027)	(3,081)	–	–	(3,081)	–
Direct overheads	(22,393)	(8,582)	(30,975)	(8,065)	(732)	(9,208)	(18,005)	(1,732)
Gross profit	377,769	49,362	427,131	(184)	1,671	1,284	2,771	(1,732)
General and administrative expenses	–	–	–	–	–	–	–	–
Other income and expenses	(28,843)	(12,986)	(41,829)	(12,728)	(3,292)	–	(16,020)	–
Gains on disposal of PP&E	–	–	–	–	–	–	–	–
Finance costs, net	(16,990)	–	(16,990)	(1,528)	–	–	(1,528)	–
Share of profits less losses of jointly controlled entities	–	–	–	–	1,914	–	1,914	–
Share of losses of associates	–	–	–	(287)	–	–	(287)	–
Profit before taxation	331,936	36,376	368,312	(14,727)	293	1,284	(13,150)	(1,732)
Taxation	–	–	–	(1,267)	–	(4)	(1,271)	–
Profit for the year	331,936	36,376	368,312	(15,994)	293	1,280	(14,421)	(1,732)
Attributable to:								
Shareholders	331,936	36,376	368,312	(15,646)	293	1,280	(14,073)	(1,732)
Minority interests	–	–	–	(348)	–	–	(348)	–
	331,936	36,376	368,312	(15,994)	293	1,280	(14,421)	(1,732)
At 31 December 2008								
Total assets	745,163	106,709	851,872	124,080	60,638	3,012	187,730	170,265
Total assets include:								
Property, plant and equipment and assets held for sale*	612,318	49,840	662,158	91,426	–	87	91,513	89,671
Investment in jointly controlled entities	–	–	–	–	18,122	–	18,122	–
Investment in associates	–	–	–	2,864	–	–	2,864	–
Total liabilities	361,369	37,393	398,762	33,539	–	855	34,394	640
Total liabilities include:								
Long term borrowings	213,349	–	213,349	19,395	–	–	19,395	–
* Include additions to property, plant and equipment	155,030	11,629	166,659	54,481	–	–	54,481	95,897

All Other Segments	Total Segments	Unallocated					
		Treasury	Others	Total	Reclass-ification	Per Financial Statements	
US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	US$'000	Note
7,335	1,696,189	–	71,752	1,767,941	(76,993)	1,690,948	
–	1,675,804	–	71,752	1,747,556	(76,993)	1,670,563	1
7,335	20,385	–	–	20,385	–	20,385	
–	(414,238)	–	(58,980)	(473,218)	473,218	–	2
(12,687)	(859,133)	–	–	(859,133)	(473,218)	(1,332,351)	
–	–	–	–	–	(473,218)	(473,218)	2
–	(696,807)	–	–	(696,807)	–	(696,807)	
–	(62,819)	–	–	(62,819)	–	(62,819)	
–	(36,108)	–	–	(36,108)	–	(36,108)	
(12,687)	(63,399)	–	–	(63,399)	–	(63,399)	
(5,352)	422,818	–	12,772	435,590	(76,993)	358,597	
–	–	–	(11,787)	(11,787)	–	(11,787)	4
(31,301)	(89,150)	20,169	(73,388)	(142,369)	76,993	(65,376)	1, 6
–	–	–	149,818	149,818	–	149,818	7
1,476	(17,042)	842	(5,925)	(22,125)	–	(22,125)	8
(3,165)	(1,251)	–	4,819	3,568	–	3,568	9
–	(287)	–	–	(287)	–	(287)	
(38,342)	315,088	21,011	76,309	412,408	–	412,408	
(2,347)	(3,618)	–	–	(3,618)	–	(3,618)	
(40,689)	311,470	21,011	76,309	408,790	–	408,790	
(40,708)	311,799	21,011	76,309	409,119	–	409,119	
19	(329)	–	–	(329)	–	(329)	
(40,689)	311,470	21,011	76,309	408,790	–	408,790	
93,525	1,303,392	965,111	62,002	2,330,505	–	2,330,505	1, 2
17,171	860,513	–	–	860,513	–	860,513	
15,440	33,562	–	17,244	50,806	–	50,806	9
–	2,864	–	–	2,864	–	2,864	
9,618	443,414	616,574	51,815	1,111,803	–	1,111,803	1, 2
–	232,744	615,068	–	847,812	–	847,812	
4,957	321,994	–	–	321,994	–	321,994	

Note 1. Net unrealised forward freight agreements benefits and expenses are under unallocated others. Net realised benefits and expenses are allocated under Pacific Basin Dry Bulk into handysize and handymax. For the presentation of the financial statements, net realised and unrealised forward freight agreements benefits and expenses are reclassified to other income and other expenses. The related derivative assets and liabilities are also allocated under unallocated others.

Note 2. Net unrealised bunker swap contracts benefits and expenses are under unallocated others. Net realised benefits and expenses are allocated under Pacific Basin Dry Bulk into handysize and handymax. For the presentation of the financial statements, bunkers & port disbursements are reclassified to direct costs. The related derivative assets and liabilities are also allocated under unallocated others.

Note 3. Provision write-back of onerous contracts for future periods of contracts due to the increase in the economic benefits expected to be received under them are under unallocated others. Provision utilisation of the portion of contracts which lapsed during the year ended 31 December 2009 is allocated under Pacific Basin Dry Bulk into handysize. For the presentation of the financial statements, both of the above are reclassified to other income. The related liability is allocated under Pacific Basin Dry Bulk into handysize and handymax.

Note 4. Others represent corporate overheads.

Note 5. Provision for impairment in relation to the aggregate delivered RoRo vessel and vessels under construction are under unallocated others. Although the related vessels lie with the PB RoRo segment, this impairment is not allocated by management to the PB RoRo segment results as it does not form part of the segment's current period performance.

Note 6. Treasury represents the gains on repurchase and cancellation of the Group's convertible bonds during the year.

Note 7. Others represent the Group's gains and losses on disposal of property, plant and equipment which are not considered to be an operating segment.

Note 8. Others represent net unrealised interest rate swap contracts benefits and expenses.

Note 9. Others represent the Group's share of results and the net assets of a joint venture of which the Group is a joint venture partner. The joint venture disposed of its only vessel in 2009 resulting in a gain on disposal.

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 2009	700,017	180,554	3,595	2,347	3,188	575	890,276
Additions	27,319	244,724	1,792	499	557	–	274,891
Write off	(3,386)	–	–	–	–	–	(3,386)
Disposal of a subsidiary	(8,005)	–	–	–	–	–	(8,005)
Disposals	(22,536)	–	–	(96)	(58)	(385)	(23,075)
Exchange differences	17,249	8,606	178	192	671	88	26,984
Reclassification	220,230	(220,230)	–	–	–	–	–
Transfer to investment properties	–	–	(2,431)	–	–	–	(2,431)
At 31 December 2009	930,888	213,654	3,134	2,942	4,358	278	1,155,254
Accumulated depreciation and impairment							
At 1 January 2009	92,414	–	52	1,715	1,329	144	95,654
Charge for the year	39,461	–	100	332	870	69	40,832
Write off	(3,386)	–	–	–	–	–	(3,386)
Disposal of a subsidiary	(67)	–	–	–	–	–	(67)
Disposals	(2,695)	–	–	(80)	(40)	(164)	(2,979)
Exchange differences	1,467	–	(1)	148	573	88	2,275
Impairment charge (Note)	2,500	22,500	–	–	–	–	25,000
Transfer to investment properties	–	–	(36)	–	–	–	(36)
At 31 December 2009	129,694	22,500	115	2,115	2,732	137	157,293
Net book value							
At 31 December 2009	801,194	191,154	3,019	827	1,626	141	997,961

Note: The impairment charge in 2009 was in relation to the aggregate delivered vessel and vessels under construction within the PB RoRo segment as the change in the European RoRo market gave us concern about the ability to deploy newbuilding RoRo vessels profitably in the next two years. This reduced the recoverable amount of our six RoRo vessel and vessels under construction which were considered as a single cash generating-unit ("CGU") in view of their similar characteristics. The recoverable amount of the CGU was determined using a value-in-use calculation over its useful life. The calculation was based on i) the one year budget, ii) the following two-years outlook and iii) an estimate for periods beyond three years until the end of the useful life of the asset assuming no growth. Key assumptions were based on management's expectation on market development and general inflation. The discount rate applied to the cash flow projection is based on the estimated 8.3% per annum weighted average cost of capital for the PB RoRo segment.

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 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	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	(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	(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 in 2008 was in relation to certain vessels and vessel component costs and vessels under construction which were subsequently transferred to assets held for sale. The charge was recognised in the income statement as "other expenses".

As at 31 December 2009, the aggregate cost and accumulated depreciation of the vessel component costs amounted to US$26,566,000 (2008: US$15,538,000) and US$10,356,000 (2008: US$5,256,000) respectively and were included in the vessels and vessel component costs.

As at 31 December 2009, the aggregate cost and accumulated depreciation of the vessels and vessel component costs held by the Group under finance leases amounted to US$240,173,000 (2008: US$239,258,000) and US$58,681,000 (2008: US$49,688,000) respectively.

As at 31 December 2009, certain owned vessels of net book value of US$479,884,000 (2008: US$391,419,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 20(b)(i)).

7 Investment Properties

	Group	
	2009	2008
	US$'000	*US$'000*
At 1 January		
Additions	**292**	–
Transfer from property, plant and equipment (Note 6)	**2,395**	–
Depreciation	**(87)**	–
At 31 December	**2,600**	–

The investment properties were valued at 31 December 2009 by an independent qualified valuer on the basis of market value. The fair value of the investment properties was approximately US$3,114,000.

8 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	
	2009	2008
	US$'000	*US$'000*
At 1 January	**3,035**	419
Additions	**888**	2,648
Amortisation	**(59)**	(32)
At 31 December	**3,864**	3,035

9 Goodwill

	Group	
	2009	2008
	US$'000	*US$'000*
At 1 January	**25,256**	36,426
Adjustment for contingent consideration paid	**–**	187
Impairment charge	**–**	(8,904)
Exchange differences	**–**	(2,453)
At 31 December	**25,256**	25,256

Goodwill is allocated to the Pacific Basin Dry Bulk, the CGU which the goodwill relates to.

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.7.

The recoverable amount of the CGU, 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, management's expectations on market development and general inflation. 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 rate applied to the cash flow projections is 10.5% reflecting the Group's cost of capital.

Based on the assessment performed, in the opinion of the Directors, no impairment provision against the carrying value of goodwill was considered necessary.

10 Subsidiaries

	Company	
	2009	2008
	US$'000	*US$'000*
Non-current assets		
Unlisted investments, at cost	**223,931**	223,931
Current assets		
Amounts due from subsidiaries	**1,503,278**	1,197,190
Current liabilities		
Amount due to a subsidiary	**(312,814)**	(331,749)

The amounts due from and to subsidiaries are unsecured, non-interest bearing and repayable on demand.

Details of principal subsidiaries of the Group as at 31 December 2009 are set out in Note 38.

11 Interests in Jointly Controlled Entities

	Group	
	2009	2008
	US$'000	*US$'000*
Share of net assets	**34,663**	42,751
Goodwill	**7,233**	7,233
Loans to jointly controlled entities	**7,719**	822
	49,615	50,806

The loans to jointly controlled entities are unsecured, non-interest bearing, and have no fixed repayment terms and the Group does not intend to request for repayment within twelve months.

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

	Group	
	2009	2008
	US$'000	*US$'000*
Assets		
Non-current assets	**71,075**	69,697
Current assets	**52,827**	31,471
	123,902	101,168
Liabilities		
Long term liabilities	**(52,696)**	(16,744)
Current liabilities	**(36,543)**	(41,673)
	(89,239)	(58,417)
Net assets	**34,663**	42,751
Revenue	**110,196**	70,074
Expenses	**(102,950)**	(66,506)
Share of profits less losses	**7,246**	3,568
Proportionate commitments in jointly controlled entities	**–**	3,794

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.

11 Interests in Jointly Controlled Entities (Continued)

Details of the principal jointly controlled entities of the Group at 31 December 2009 are as follows:

Name	Place of incorporation/ operation	Issued and fully paid up share capital	Interest in ownership/ voting power/ profit sharing	Principal activities
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 activities
Seafuels Limited (Formerly: Seafuels 2008 Limited)	New Zealand	100 ordinary shares	50%/50%/50%	Bunker barge owning
Meridian Marine Management Limited	England and Wales	501 Class "A" ordinary shares of GBP1 each 501 Class "B" ordinary shares of GBP each	50%/50%/50%	Provision of ship management services
PB Offshore (No. 2) Limited	The Cook Islands	10 shares of US$1 each	50%/50%/50%	Vessel owning & chartering
Perfect Boom Holdings Limited	The British Virgin Islands	1 share of US$1	50%/50%/50%	Vessel owning
Longtan Tianyu Terminal Co., Ltd. [1] 南京港龍潭天宇碼頭有限公司	The PRC	RMB272,727,273 (registered capital)	45%/45%/45%	Terminal operation
Offshore Marine Services Alliance Pty Ltd ("OMSA")	Australia	300 shares	33$^1/_3$%/33$^1/_3$%/33$^1/_3$%	Towage logistic services

[1] This jointly controlled entity is a sino-foreign cooperative joint venture established in the PRC.

All jointly controlled entities are held indirectly by the Company.

12 Investments in Associates

	Group	
	2009 *US$'000*	2008 *US$'000*
Share of net assets	**1,826**	1,673
Loan to an associate	**1,423**	1,191
	3,249	2,864

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

12 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	
	2009	2008
	US$'000	*US$'000*
Assets		
Non-current assets	**3,268**	2,818
Current assets	**252**	214
	3,520	3,032
Liabilities		
Long term liabilities	**–**	(8)
Current liabilities	**(1,694)**	(1,351)
	(1,694)	(1,359)
Net assets	**1,826**	1,673
Revenue	**574**	543
Expenses	**(677)**	(830)
Share of losses	**(103)**	(287)

Details of the principal associate of the Group at 31 December 2009 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	BC, Canada	120 Class A common shares of CAD$1 each	$33^{1}/_{3}$%/$33^{1}/_{3}$%/$33^{1}/_{3}$%	Terminal operation

13 Available-for-sale Financial Assets

	Group	
	2009	2008
	US$'000	*US$'000*
Listed equity securities, at fair value (Note a)	**57,813**	36,782
Unlisted equity securities, at fair value (Note b)	**4,203**	6,672
	62,016	43,454

Available-for-sale financial assets are denominated in United States Dollars.

(a) This represents the Group's investment in Green Dragon Gas Limited, a company listed on the London AIM market.

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

14 Derivative Assets and Liabilities

	Group	
	2009	2008
	US$'000	*US$'000*
Derivative assets		
Cash flow hedges		
Forward foreign exchange contracts (Note a)	**–**	17,596
Interest rate swap contracts (Note b(i))	**1,055**	–
Derivative assets that do not qualify for hedge accounting		
Bunker swap contracts (Note c)	**14,166**	250
Forward freight agreements (Note d)	**11,994**	61,751
Total	**27,215**	79,597
Less: non-current portion of		
Interest rate swap contracts (Note b(i))	**(1,055)**	–
Forward foreign exchange contracts (Note a)	**–**	(10,915)
Bunker swap contracts (Note c)	**(3,300)**	(10)
Forward freight agreements (Note d)	**(2,524)**	(12,875)
Non-current portion	**(6,879)**	(23,800)
Current portion	**20,336**	55,797
Derivative liabilities		
Cash flow hedges		
Forward foreign exchange contracts (Note a)	**1,688**	–
Interest rate swap contracts (Note b(i))	**2,647**	4,614
Derivative liabilities that do not qualify for hedge accounting		
Interest rate swap contracts (Note b(ii))	**5,170**	8,130
Bunker swap contracts (Note c)	**923**	33,764
Forward freight agreements (Note d)	**9,812**	5,307
Total	**20,240**	51,815
Less: non-current portion of		
Interest rate swap contracts (Note b(i))	**(2,647)**	(4,614)
Interest rate swap contracts (Note b(ii))	**(5,170)**	(8,130)
Forward foreign exchange contracts (Note a)	**(541)**	–
Bunker swap contracts (Note c)	**(279)**	(8,132)
Forward freight agreements (Note d)	**(1,098)**	(22)
Non-current portion	**(9,735)**	(20,898)
Current portion	**10,505**	30,917

14 Derivative Assets and Liabilities (Continued)

(a) Forward foreign exchange contracts

The Group had future commitments to purchase vessels in Euros ("EUR") from January 2010 to June 2010. The Group also had long term bank borrowings in Danish Kroner ("DKK") with maturity in September 2021. To hedge against the potential fluctuations in foreign exchange, the Group entered into forward foreign exchange contracts with terms that match the payment schedules of the construction of the vessels until delivery and the repayment schedules of the long term bank borrowings. These forward foreign exchange contracts qualify for hedge accounting as cash flow hedges.

At 31 December 2009, the Group had outstanding forward foreign exchange contracts with banks as follows:

(i) buy approximately EUR 10.5 million (2008: EUR 15.1 million) and simultaneously sell approximately A$18.5 million (2008: A$26.7 million), which expire through June 2010 (2008: February 2010), related to the acquisition of vessels denominated in Euros; and

(ii) buy approximately DKK 335.9 million (2008: nil) and simultaneously sell approximately EUR 45.1 million (2008: nil), which expire through September 2021, related to the long term bank borrowings denominated in Danish Kroner.

(b) Interest rate swap contracts

(i) The Group has bank borrowings exposed to floating interest rates. In order to hedge the fluctuations in interest rates related to the bank borrowings, the Group entered into interest rate swap contracts with banks to manage against 3-month and 6-month floating rate LIBOR, and 3-month floating rate BBSW as follows:

- Effective from 2 January 2007, a notional amount of US$20 million with the 6-month floating rate LIBOR swapped to a fixed rate of approximately 5.6% per annum. This contract expires in January 2017;

- Effective from 31 March 2009, notional amounts of US$100 million in total with the 3-month floating rate LIBOR swapped to fixed rates of approximately 2.9% to 3.0% per annum. These contracts expire through March 2016; and

- Effective from 30 June 2009, notional amounts of A$28 million in total with the 3-month floating rate BBSW swapped to fixed rates of approximately 4.7% to 5.2% per annum. These contracts expire through June 2013.

These interest rate swap contracts qualify for hedge accounting as cash flow hedges.

(ii) Effective from 2 January 2007, a notional amount of US$40 million with the 6-month floating rate LIBOR swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month floating rate LIBOR 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 LIBOR is above 6.0% and reverts back to the fixed rate should subsequently the 6-month floating rate LIBOR drop below 6.0%. This contract expires in January 2017.

14 Derivative Assets and Liabilities (Continued)

(c) Bunker swap contracts

The Group enters into bunker swap contracts to manage the fluctuations in bunker prices in connection with the Group's long term cargo contract commitments.

At 31 December 2009, the Group had outstanding bunker swap contracts to buy approximately 169,600 (2008: 210,000) metric tonnes of bunkers. These contracts expire through December 2012 (2008: October 2012).

(d) Forward freight agreements

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.

At 31 December 2009, the Group had outstanding forward freight agreements as follows:

(i) buy approximately 1,400 (2008: 315) days of the Baltic Supramax Index at prices of US$12,800 to US$22,500 per day (2008: US$12,800 to US$49,000), which expire through December 2010 (2008: December 2009);

(ii) sell approximately 2,440 (2008: 3,490) days of the Baltic Supramax Index at prices of US$11,100 to US$31,300 per day (2008: US$12,000 to US$51,000), which expire through December 2012 (2008: December 2012);

(iii) buy approximately 90 (2008: nil) days of Baltic Handysize Index at prices of US$13,300 per day, which expire through March 2010; and

(iv) sell approximately 910 (2008: 1,140) days of the Baltic Handysize Index at prices of US$8,100 to US$11,000 per day (2008: US$7,400 to US$27,500), which expire through December 2010 (2008: December 2009).

(e) During the year, the Group has adopted HKAS 1 (Amendment) to present derivatives classified as held for trading to show both current and non-current portions of assets and liabilities and the comparative figures have been adjusted accordingly. If this amendment had been adopted as at 1 January 2008, the non-current derivative assets in respect of bunker swap contracts and forward freight agreements would have been US$10,556,000 and US$329,000 respectively. Similarly, the non-current derivative liabilities in respect of interest rate swap contracts would have been US$2,206,000.

15 Trade and Other Receivables

	Group	
	2009	2008
	US$'000	*US$'000*
Non-current receivables		
Finance lease receivables – gross	**10,015**	12,325
Less: unearned finance lease income	**(1,783)**	(2,808)
Finance lease receivables – net (Note a)	**8,232**	9,517
Current receivables		
Finance lease receivables – gross	**2,309**	2,309
Less: unearned finance lease income	**(1,025)**	(1,163)
Finance lease receivables – net (Note a)	**1,284**	1,146
Trade receivables – gross	**28,277**	29,746
Less: provision for impairment	**(1,548)**	(1,996)
Trade receivables – net (Note b)	**26,729**	27,750
Other receivables	**38,695**	63,278
Prepayments	**16,147**	19,006
Amounts due from jointly controlled entities (Note c)	**174**	13
Loan to a jointly controlled entity (Note c)	**7,449**	40,000
	90,478	151,193

Trade and other receivables are mainly denominated in United States Dollars.

(a) At 31 December 2009 and 2008, 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% (2008: approximately 11.3%).

15 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 2009 are as follows:

	Group	
	2009	2008
	US$'000	*US$'000*
Gross receivables from finance lease		
Not later than one year	**2,309**	2,309
Later than one year but not later than two years	**2,309**	2,309
Later than two years but not later than five years	**7,706**	10,016
	12,324	14,634
Less: unearned future finance lease income	**(2,808)**	(3,971)
	9,516	10,663
Net receivables from finance lease		
Not later than one year	**1,284**	1,146
Later than one year but not later than two years	**1,439**	1,284
Later than two years but not later than five years	**6,793**	8,233
	9,516	10,663

(b) At 31 December 2009, the ageing analysis of net trade receivables, which is past due but not considered impaired, is as follows:

	Group	
	2009	2008
	US$'000	*US$'000*
Less than 30 days	**20,258**	16,146
31-60 days	**3,395**	5,857
61-90 days	**623**	1,451
Over 90 days	**2,453**	4,296
	26,729	27,750

15 Trade and Other Receivables (Continued)

(b) (continued)

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

	Group	
	2009	2008
	US$'000	*US$'000*
At 1 January	**1,996**	511
Provision for receivable impairment	**1,340**	2,186
Receivable written off during the year as uncollectible	**(603)**	(169)
Unused amounts reversed	**(1,185)**	(532)
At 31 December	**1,548**	1,996

Trade receivables consist 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 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) Except the amount due from a jointly controlled entity of A$1,000,000 which carries interest of BBSW plus 3.0% per annum and is repayable within one year, the loan to and amounts due from jointly controlled entities are unsecured, non-interest bearing and repayable on demand.

(d) As at 31 December 2009 and 2008, 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.

16 Cash and Deposits

	Group		Company	
	2009 US$'000	2008 US$'000	**2009 US$'000**	2008 US$'000
Cash at bank and on hand	**408,647**	259,422	**13**	15
Short term bank deposits	**647,015**	764,319	**–**	–
Notes receivable	**50,000**	–	**–**	–
Cash and deposits – gross	**1,105,662**	1,023,741	**13**	15
Restricted bank deposits included in non-current assets	**(40,084)**	(4,757)	**–**	–
Restricted bank deposits included in current assets	**(16,483)**	(44,108)	**–**	–
Restricted cash and deposits (Note i)	**(56,567)**	(48,865)	**–**	–
Cash and deposits – net	**1,049,095**	974,876	**13**	15
Notes receivable (Note ii)	**(50,000)**	–	**–**	–
Cash and cash equivalents	**999,095**	974,876	**13**	15
Effective interest rate of bank deposits	**1.00%**	1.19%	**–**	–
Average remaining maturity of bank deposits	**40 days**	19 days	**–**	–

Note:

(i) The balances were held as securities with banks in relation to certain guarantees.

(ii) The notes receivable carries interest of fixed USD 6-month LIBOR plus a margin of 0.85% and matures in May 2010.

Cash and deposits are mainly denominated in United States Dollars.

17 Other Non-current Assets

	Group	
	2009 US$'000	2008 US$'000
Prepayments for acquisition of vessels	**47,145**	40,030
Other prepayments	**12,742**	16,208
	59,887	56,238

Other non-current assets are mainly denominated in United States Dollars.

18 Inventories

	Group	
	2009	2008
	US$'000	*US$'000*
Bunkers	**31,211**	21,762
Lubricating oil	**2,647**	2,529
	33,858	24,291

19 Trade and Other Payables

	Group	
	2009	2008
	US$'000	*US$'000*
Trade payables (Note a)	**29,949**	16,756
Accruals and other payables	**52,063**	107,901
Receipts in advance	**27,056**	29,901
Amounts due to jointly controlled entities (Note b)	**2,672**	133
	111,740	154,691

Trade and other payables are mainly denominated in United States Dollars.

(a) At 31 December 2009, the ageing analysis of trade payables is as follows:

	Group	
	2009	2008
	US$'000	*US$'000*
Less than 30 days	**22,806**	11,591
31-60 days	**2,024**	846
61-90 days	**314**	320
Over 90 days	**4,805**	3,999
	29,949	16,756

(b) The amounts due to jointly controlled entities are unsecured, non-interest bearing and repayable on demand.

20 Long Term Borrowings

	Group 2009 US$'000	2008 US$'000
Non-current		
Finance lease liabilities (Note a)	**184,458**	199,386
Secured bank loans (Note b)	**339,382**	288,059
Convertible bonds (Note c)	**298,010**	301,688
	821,850	789,133
Current		
Finance lease liabilities (Note a)	**14,928**	13,963
Secured bank loans (Note b)	**39,800**	44,716
	54,728	58,679
Total long term borrowings	**876,578**	847,812

Long term borrowings are mainly denominated in United States Dollars.

(a) At 31 December 2009, 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% (2008: approximately 6.6% to 7.0%).

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2009 are as follows:

	Group 2009 US$'000	2008 US$'000
Gross liabilities under finance leases		
Not later than one year	**28,114**	28,137
Later than one year but not later than two years	**28,105**	28,114
Later than two years but not later than five years	**84,256**	84,287
Later than five years	**124,578**	152,653
	265,053	293,191
Less: future finance charges on finance leases	**(65,667)**	(79,842)
	199,386	213,349

20 Long Term Borrowings (Continued)

(a) (continued)

	Group	
	2009	2008
	US$'000	*US$'000*
Net liabilities under finance leases		
Not later than one year	**14,928**	13,963
Later than one year but not later than two years	**15,976**	14,928
Later than two years but not later than five years	**54,924**	51,312
Later than five years	**113,558**	133,146
	199,386	213,349

(b) The bank loans as at 31 December 2009 are secured, inter alia, by the following:

(i) Mortgages over certain owned vessels of net book value totalling US$479,884,000 (2008: US$391,419,000) (Note 6);

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

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

(iv) Cash and deposits totalling US$10,348,000.

The average effective interest rate of bank loans is 2.2% (2008: 2.3%).

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

	Group	
	2009	2008
	US$'000	*US$'000*
Within one year	**39,800**	44,716
In the second year	**39,100**	33,800
In the third to fifth year	**143,832**	97,898
After the fifth year	**156,450**	156,361
	379,182	332,775

(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.

20 Long Term Borrowings (Continued)

(c) Convertible bonds (continued)

During the year, convertible bonds with nominal value of US$10.3 million (2008: US$65.8 million) were repurchased and cancelled at a consideration of US$8.6 million (2008: US$44.5 million). Gains of US$1.5 million (2008: US$20.2 million) (Note 25) and US$0.3 million (2008: 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 at 31 December 2009 was US$314.0 million.

21 Provision for Onerous Contracts

	Group	
	2009	2008
	US$'000	*US$'000*
At 1 January	**53,932**	–
Charge for the year	**2,031**	53,932
Write-back for the year	**(27,199)**	–
Utilised during the year	**(26,733)**	–
At 31 December	**2,031**	53,932
Analysis of provision		
Current	**–**	28,179
Non-current	**2,031**	25,753
	2,031	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

	2009		2008	
	Number of shares of US$0.1 each	***US$'000***	Number of shares of US$0.1 each	*US$'000*
Authorised	**3,600,000,000**	**360,000**	3,600,000,000	360,000
Issued and fully paid				
At 1 January	**1,747,136,295**	**174,714**	1,584,029,295	158,403
Shares issued upon exercise of share options (Note a)	**–**	**–**	2,100,000	210
Shares purchased by trustee of the LTIS (Note b)	**(2,943,000)**	**(1,296)**	(1,212,000)	(1,759)
Shares transferred to employees upon granting of restricted share awards (Note b)	**3,335,000**	**1,336**	1,262,000	1,764
Shares issued and transferred to employees upon granting of restricted share awards (Note b)	**6,805,000**	**680**	2,532,000	253
Shares transferred back to trustee upon lapse of restricted share awards (Note b)	**(1,986,000)**	**(199)**	(173,000)	(17)
Shares issued upon placing of new shares (Note c)	**174,731,010**	**17,473**	158,598,000	15,860
At 31 December	**1,927,078,305**	**192,708**	1,747,136,295	174,714

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 will 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:

	2009 Average exercise price per share *HK$*	**2009** *'000*	2008 Average exercise price per share *HK$*	2008 *'000*
At 1 January	**2.50**	**1,178**	2.50	3,278
Exercised	**–**	**–**	2.50	(2,100)
At 31 December	**2.50**	**1,178**	2.50	1,178

Note: In 2008, the related weighted average price of the Company's shares at the time of exercise was HK$12.18 per share.

At 31 December 2009 and 2008, 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 HKFRS is regarded as a special purpose entity of the Company.

During the year, a total of 10,140,000 (2008: 3,794,000) restricted share awards were granted and transferred to certain employees on 9 June 2009, of which:

(i) 3,335,000 (2008: 1,262,000) shares were purchased by the trustee of the LTIS on the Stock Exchange at a total cost of US$1,336,000 (2008: US$1,764,000); and

(ii) 6,805,000 (2008: 2,532,000) shares were issued by the Company at nominal value of US$0.10 each.

The above transfers of shares resulted in movements between share capital and staff benefit reserve of US$1,336,000 and US$680,000 (2008: US$1,764,000 and US$253,000) respectively. 1,986,000 (2008: 173,000) shares amounting to US$198,600 (2008: US$17,000) formerly transferred to certain employees lapsed. At 31 December 2009, there remained 1,767,814 (2008: 173,814) shares held by the trustee, amounting to US$177,000 (2008: US$17,000) 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	666,666	on 5 April 2010
9 March 2006	585,000	in equal amounts on 1 March 2010 and 2011
15 March 2006	80,000	in equal amounts on 1 March 2010 and 2011
20 March 2006	204,088	on 5 April 2010
21 July 2006	180,000	in equal amounts on 23 August 2010 and 2011
19 September 2006	1,000,000	in equal amounts on 4 September 2010 and 2011
11 May 2007	3,145,500	on 14 July 2010
20 March 2008	23,000	on 1 March 2010
1 April 2008	154,000	in equal amounts on 1 April 2010 and 2011
5 August 2008	1,468,000	on 14 July 2011
5 August 2008	636,000	301,000 on each of 14 July 2010 and 335,000 on 14 July 2011
5 August 2008	234,000	in equal amounts on 2 July 2010 and 2011
5 August 2008	66,000	in equal amounts on 24 July 2010 and 2011
9 June 2009	7,282,000	on 14 July 2012
9 June 2009	1,562,000	514,000, 520,000 and 528,000 shares on 14 July 2010, 2011 and 2012 respectively
	17,286,254	

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

	2009 *'000*	2008 *'000*
At 1 January	**14,490**	16,340
Granted	**10,140**	3,794
Vested	**(5,358)**	(5,471)
Lapsed	**(1,986)**	(173)
At 31 December	**17,286**	14,490

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

(c) On 20 May 2009, the Company issued 174,731,010 new shares, with nominal value of US$0.10 each, at a price of HK$4.36 per share representing a discount of approximately 5.2% to the closing price of HK$4.60 per share as quoted on the Stock Exchange on 12 May 2009, being the date of the placing agreement. The proceeds of the placing, net of issuing expenses of approximately US$1,240,000, amounted to US$97,054,000 (or HK$752,256,000) or HK$4.31 net per share. The placing was fully underwritten by UBS AG as the placing agent to more than six independent individual, corporate, institutional or other professional investors. The purpose of such placing was to provide equity financing for the Company's expansion initiatives.

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$'000	Investment valuation reserve US$'000	Exchange reserve US$'000	Subtotal US$'000	Retained profits US$'000	Total US$'000
At 1 January 2009	507,160	(56,606)	28,067	4,697	12,982	–	(20,960)	475,340	568,648	1,043,988
Currency translation differences	–	–	–	–	–	–	24,949	24,949	–	24,949
Cash flow hedges										
– fair value gains	–	–	–	–	(146)	–	–	(146)	–	(146)
– transferred to property, plant and equipment	–	–	–	–	(1,729)	–	–	(1,729)	–	(1,729)
– transferred to finance costs in consolidated income statement	–	–	–	–	2,731	–	–	2,731	–	2,731
Fair value gains on available-for-sale financial assets	–	–	–	–	–	20,121	–	20,121	–	20,121
Gains on repurchase and cancellation of convertible bonds (Note 20(c))	–	–	–	–	–	–	–	–	325	325
Shares transferred upon granting and lapse of restricted share awards (Note 22(b))	–	–	–	(1,817)	–	–	–	(1,817)	–	(1,817)
Shares issued upon placing of new shares, net of issuing expenses (Note 22(c))	79,581	–	–	–	–	–	–	79,581	–	79,581
Repurchase and cancellation of convertible bonds (Note 20(c))	–	–	(887)	–	–	–	–	(887)	–	(887)
Profit attributable to shareholders	–	–	–	–	–	–	–	–	110,278	110,278
Share-based compensation (Note 26)	–	–	–	5,377	–	–	–	5,377	–	5,377
Dividends paid (Note 30)	–	–	–	–	–	–	–	–	(19,912)	(19,912)
At 31 December 2009	586,741	(56,606)	27,180	8,257	13,838	20,121	3,989	603,520	659,339	1,262,859
Representing:										
2009 Proposed final dividend									37,310	
Others									622,029	
Retained profit at 31 December 2009									659,339	

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
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	–	–	–	–	21,760	–	21,760	–	21,760
– transferred to property, plant and equipment	–	–	–	–	(8,176)	–	(8,176)	–	(8,176)
– transferred to finance costs in 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	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
Share-based compensation (Note 26)	–	–	–	6,854	–	–	6,854	–	6,854
Dividends paid (Note 30)	–	–	–	–	–	–	–	(322,967)	(322,967)
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)

	Company				
	Other reserves				
	Share Premium US$'000	Staff benefits reserve US$'000	Subtotal US$'000	Retained profits US$'000	Total US$'000
At 1 January 2009	**507,160**	**4,697**	**511,857**	**402,858**	**914,715**
Shares transferred upon granting and lapse of restricted share awards (Note 22(b))	**–**	**(1,817)**	**(1,817)**	**–**	**(1,817)**
Shares issued upon placing of new shares, net of issuing expenses (Note 22(c))	**79,581**	**–**	**79,581**	**–**	**79,581**
Share-based compensation (Note 26)	**–**	**5,377**	**5,377**	**–**	**5,377**
Profit attributable to shareholders (Note 29)	**–**	**–**	**–**	**243,564**	**243,564**
Dividends paid (Note 30)	**–**	**–**	**–**	**(19,912)**	**(19,912)**
At 31 December 2009	**586,741**	**8,257**	**594,998**	**626,510**	**1,221,508**
Representing:					
2009 Proposed final dividend				**37,310**	
Others				**589,200**	
Retained profits as at 31 December 2009				**626,510**	
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	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)
At 31 December 2008	507,160	4,697	511,857	402,858	914,715

As at 31 December 2009, distributable reserves of the Company amounted to US$626.5 million (2008: US$402.9 million).

24 Expenses by Nature

	2009 US$'000	2008 US$'000
Amortisation of land use rights	59	32
Amounts payable to other pool members	(47)	9,309
Auditors' remuneration		
– audit	1,440	1,155
– non-audit	329	179
Bunkers consumed	178,029	239,625
Depreciation		
– owned vessels	28,152	23,723
– leased vessels	11,309	12,385
– investment properties	87	–
– other owned property, plant and equipment	1,371	1,344
Employee benefit expenses including Directors' emoluments (Note 26)	43,782	51,726
Losses on disposal of subsidiaries	–	1,744
Losses on financial assets at fair value through profit or loss	–	4,369
Losses on forward freight agreements	80,651	55,888
Lubricating oil consumed	4,136	3,801
Net exchange losses	746	3,480
Net (gains)/losses on bunker swap contracts	(45,670)	48,553
One-off charter termination payment	–	41,829
Operating lease expenses		
– vessels	367,114	696,807
– land and buildings	3,474	3,425
Port disbursements and other voyage costs	134,912	174,072
Provision for impairment losses		
– Property, plant and equipment	25,000	19,455
– Goodwill	–	8,904
– Investments in associates	–	3,574
– Available-for-sale financial assets	–	35,544
– Trade receivables	1,340	2,186
– Other receivables	1,361	–
Provision for onerous contracts	2,031	53,932
Vessel and other operating costs	86,647	76,394
Total of (i) "direct costs", (ii) "general and administrative expenses" and (iii) "other expenses"	926,253	1,573,435

25 Other Income

	2009 US$'000	2008 US$'000
Income		
Dividend income on financial assets at fair value through profit or loss	**–**	398
Other income	**1**	1,145
Gains		
Fair value gains on forward freight agreements	**54,997**	132,881
Gains on disposals and derecognition of financial assets at fair value through profit or loss	**–**	9,328
Gains on repurchase and cancellation of convertible bonds	**1,547**	20,169
Provision for onerous contract		
– write-back for the year	**27,199**	–
– utilised during the year	**26,733**	–
	110,477	163,921

26 Employee Benefit Expenses (Including Directors' Emoluments)

	2009 US$'000	2008 US$'000
Directors' fees	**329**	377
Salaries and bonus	**36,712**	42,471
Retirement benefit costs	**1,364**	2,024
Share-based compensation	**5,377**	6,854
	43,782	51,726

(a) Directors' emoluments

The aggregate amount of emoluments payable to the Directors of the Company during the year was US$6.0 million (2008: US$7.3 million). Details of Directors' remuneration are disclosed in sections 2, 3 and 4 of the Remuneration Report on pages 67 to 68.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2008: four) Directors whose emoluments are reflected in note (a) above and amounted to US$5.0 million (2008: US$6.1 million). The emoluments payable to the remaining one individual (2008: one) were US$0.8 million (2008: US$0.9 million). Further details are disclosed in section 6 of the Remuneration Report on page 69.

27 Finance Income and Costs

	2009 *US$'000*	2008 *US$'000*
Finance income		
Bank interest income	**(10,270)**	(21,280)
Finance lease interest income	**(1,163)**	(1,304)
Interest income on available-for-sale financial assets	**–**	(3,440)
	(11,433)	(26,024)
Finance costs		
Interest on bank loans wholly repayable within five years	**1,438**	–
Interest on bank loans not wholly repayable within five years	**5,340**	4,407
Interest on finance leases not wholly repayable within five years	**14,175**	17,014
Interest on convertible bonds wholly repayable within five years	**16,233**	19,132
Other finance charges	**348**	862
Net losses on interest rate swap contracts	**1,220**	6,734
	38,754	48,149
Finance costs, net	**27,321**	22,125

28 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2008: 16.5%) 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:

	2009 ***US$'000***	2008 *US$'000*
Current taxation		
Hong Kong profits tax	**961**	1,943
Overseas tax	**1,834**	1,893
Overprovision of prior year	**(1,072)**	(218)
	1,723	3,618

The tax on the Group's profit before taxation differs from the theoretical amount that would arise using the applicable tax rate, being the weighted average of rates prevailing in the countries in which the Group operates, as follows:

	2009 ***US$'000***	2008 *US$'000*
Profit before taxation	**112,001**	412,408
Less: share of profits less losses of jointly controlled entities	**(7,246)**	(3,568)
Add: share of losses of associates	**103**	287
	104,858	409,127
Tax calculated at applicable tax rates	**18,758**	68,905
Income not subject to taxation	**(90,596)**	(188,919)
Expenses not deductible for taxation purposes	**74,633**	123,850
Overprovision of prior year	**(1,072)**	(218)
Taxation charge	**1,723**	3,618

The weighted average applicable tax rate was 17.9% (2008: 16.8%).

There was no material unprovided deferred taxation at 31 December 2009 (2008: 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$243,564,000 (2008: US$442,279,000).

30 Dividends

	2009 *US$'000*	2008 *US$'000*
Interim dividend of HK 8 cents or US 1.0 cents per share (2008: HK 76 cents or US 9.7 cents per share)	**19,912**	170,142
Proposed final dividend of HK 15 cents or US 1.9 cents per share (2008: nil)	**37,310**	–
	57,222	170,142

The dividends paid in 2009 and 2008 were US$19,912,000 (HK 8 cents or US 1.0 cents per share) and US$322,967,000 (HK 151 cents or US 19.3 cents per share) respectively. A proposed final dividend in respect of the year ended 2009 of HK 15 cents or US 1.9 cents per share, amounting to a total dividend of US$37,310,000 was declared on 2 March 2010.

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)).

	2009	2008
Profit attributable to shareholders (US$'000)	**110,278**	409,119
Weighted average number of ordinary shares in issue ('000)	**1,857,902**	1,684,034
Basic earnings per share	**US 5.94 cents**	US 24.29 cents
Equivalent to	**HK 46.01 cents**	HK 189.17 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)).

	2009	2008
Profit attributable to shareholders (US$'000)	**110,278**	409,119
Weighted average number of ordinary shares in issue ('000)	**1,857,902**	1,684,034
Adjustments for share options ('000)	**588**	867
Weighted average number of ordinary shares for diluted earnings per share ('000)	**1,858,490**	1,684,901
Diluted earnings per share	**US 5.93 cents**	US 24.28 cents
Equivalent to	**HK 45.99 cents**	HK 189.07 cents

32 Notes to The Consolidated Cash Flow Statement

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

	Group	
	2009 *US$'000*	2008 *US$'000*
Profit before taxation	**112,001**	412,408
Adjustment for:		
Finance costs, net	**27,321**	22,125
Share of profits less losses of jointly controlled entities	**(7,246)**	(3,568)
Share of losses of associates	**103**	287
Depreciation	**40,919**	37,452
Amortisation of land use rights	**59**	32
Provision for impairment losses		
– Property, plant and equipment	**25,000**	19,455
– Goodwill	**–**	8,904
– Investments in associates	**–**	3,574
– Available-for-sale financial assets	**–**	35,544
– Trade receivables	**1,340**	2,186
– Other receivables	**1,361**	–
Gains on disposal of jointly controlled entities	**–**	(1,150)
Share-based compensation	**5,377**	6,854
Losses/(gains) on disposal of property, plant and equipment	**2,522**	(149,818)
Net unrealised losses/(gains) on derivative instruments not qualified as hedges, excluding interest rate swap contracts	**7,460**	(12,773)

32 Notes to The Consolidated Cash Flow Statement (Continued)

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

	Group	
	2009	2008
	US$'000	*US$'000*
Dividend income from financial assets at fair value through profit or loss	**–**	(398)
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
Change in provision for onerous contracts	**(51,901)**	53,932
Losses on disposal of subsidiaries	**–**	1,744
Gains on repurchase and cancellation of convertible bonds	**(1,547)**	(20,169)
Exchange differences	**746**	(7,722)
Profit before taxation before working capital changes	**163,515**	403,940
(Increase)/decrease in inventories	**(9,318)**	3,287
Decrease in financial assets at fair value through profit or loss	**–**	15,948
Decrease/(increase) in trade and other receivables	**35,467**	(21,162)
(Decrease)/increase in trade and other payables	**(42,661)**	58,683
Cash generated from operations	**147,003**	460,696

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

	2009	2008
	US$'000	*US$'000*
Net book amount of property, plant and equipment (Note 6)	**20,096**	163,722
(Loss)/gains on disposal of property, plant and equipment	**(2,522)**	149,818
	17,574	313,540

33 Commitments

(a) Capital commitments

	Group	
	2009	2008
	US$'000	*US$'000*
Contracted but not provided for:		
– vessel acquisitions and shipbuilding contracts	**244,219**	429,318
– investment in unlisted equity securities	**11,229**	10,203
– investment in a jointly controlled entity	**–**	6,250
	255,448	445,771
Authorised but not contracted for:		
– vessel acquisitions and shipbuilding contracts	**41,630**	–
– investment in a jointly controlled entity	**13,183**	–
	54,813	–
	310,261	445,771

Capital commitments that fall due not later than one year amounted to US$234.6 million (2008: US$241.4 million).

(b) Commitments under operating leases

(i) The Group as the lessee

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

	Handysize	Handymax	Roro	Tug	Post Panamax	Vessels Total	Land and buildings	Total
	US$'000	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*	*US$'000*
At 31 December 2009								
Not later than one year	**104,384**	**71,347**	**8,181**	**1,010**	**–**	**184,922**	**2,803**	**187,725**
Later than one year but not later than five years	**109,039**	**7,746**	**31,293**	**1,555**	**23,088**	**172,721**	**2,416**	**175,137**
Later than five years	**57,257**	**–**	**–**	**–**	**9,867**	**67,124**	**457**	**67,581**
	270,680	**79,093**	**39,474**	**2,565**	**32,955**	**424,767**	**5,676**	**430,443**
At 31 December 2008								
Not later than one year	126,331	103,016	–	70	–	229,417	2,843	232,260
Later than one year but not later than five years	156,201	40,866	39,474	–	16,716	253,257	4,041	257,298
Later than five years	60,667	–	–	–	50,020	110,687	97	110,784
	343,199	143,882	39,474	70	66,736	593,361	6,981	600,342

33 Commitments (Continued)

(b) Commitments under operating leases (continued)

(i) The Group as the lessee (continued)

Contingent lease payments made, including payments to other pool members of the handysize and handymax pools, amounted to US$6,994,000 (2008: US$44,400,000).

The leases have varying terms ranging from less than 1 year to 11 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 as follows:

	Vessels US$'000	Investment properties US$'000	Total US$'000
At 31 December 2009			
Not later than one year	**61,110**	**215**	**61,325**
Later than one year but not later than five years	**106,515**	**310**	**106,825**
Later than five years	**88,836**	**–**	**88,836**
	256,461	**525**	**256,986**
At 31 December 2008			
Not later than one year	44,336	–	44,336
Later than one year but not later than five years	100,308	–	100,308
Later than five years	124,332	–	124,332
	268,976	–	268,976

The Group's operating leases are for terms ranging from less than 1 year to 16 years.

34 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

	2009 US$'000	2008 US$'000
Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") (Note i)	**392**	604
Amounts payable to China Line Shipping Limited	**–**	10,152
Amounts payable to FBSL	**–**	2,784

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.

34 Significant Related Party Transactions (Continued)

(b) Sales of services

	2009 US$'000	2008 US$'000
Charter-hire income received from FBSL (Note i)	**4,479**	13,623
Management fee income received from FBSL (Note ii)	**7,831**	2,403
Interest income received from FBSL (Note iii)	**699**	445
Charter-hire income received from OMSA (Note iv)	**5,191**	–

Note:

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

(ii) The Group provided certain management and commercial services to FBSL.

(iii) The Group provided short term loans to FBSL.

(iv) The Group leased out certain vessels to OMSA, a jointly controlled entity.

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

	2009 US$'000	2008 US$'000
Directors' fee	**329**	377
Salaries and bonus	**7,113**	8,242
Retirement benefit costs	**161**	218
Share-based compensation	**2,015**	2,742
	9,618	11,579

35 Financial guarantees

The Group has given a corporate guarantee of approximately US$47.0 million for a jointly controlled entity in respect of a loan facility granted to the entity.

The Company has given corporate guarantees of approximately US$324.3 million (2008: US$266.4 million) for certain subsidiaries in respect of loan facilities granted to the subsidiaries.

36 Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

37 Significant Post Balance Sheet Events

Subsequent to 31 December 2009, the Group has

1) contracted with a third party to acquire one handysize vessel with a consideration of approximately US$23.6 million which is included in the capital commitment under authorised but not contracted for category as at 31 December 2009;

2) contracted with a third party to acquire one handysize vessel with a consideration of approximately US$21.8 million; and

3) exercised a purchase option to acquire one handysize vessel with a consideration of approximately US$16.9 million.

37 Significant Post Balance Sheet Events (Continued)

Subsequent to 31 December 2009, the Board approved the issue by the Company of new convertible bonds, for an aggregate principal amount of US$200 million to US$250 million. This was conditional upon obtaining shareholders' approval of the specific share issue mandate at a special general meeting to be convened for that purpose.

38 Principal Subsidiaries

At 31 December 2009, the Company has direct and indirect interest in the following principal subsidiaries:

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2009 %	Interest held 2008 %	Principal activities
Shares held directly:					
PB Management Holding Limited	BVI	12,313 shares of US$1 each	**100**	100	Investment holding
PB Vessels Holding Limited	BVI	101,118,775 shares of US$1 each	**100**	100	Investment holding
PB Issuer Limited	BVI	1 share of US$1	**100**	100	Bond issuer
Shares held indirectly:					
AMS Salvage and Towage Pty. Ltd.	AUS/Int'l	100 shares of AUD 1	**100**	90.1	Tugs owning and chartering
Asia Pacific Capital Developments Limited 亞太資本發展有限公司	HK	1 share of HK$1	**100**	100	Property holding
Asia Pacific Fortune (HK) Limited 亞太財富(香港)有限公司	HK	1 share of HK$1	**100**	100	Investment holding of PRC terminal
Bernard (BVI) Limited	BVI/Int'l	5,100,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Bright Cove Limited	HK/Int'l	1 share of HK$1	**100**	100	Vessel owning and chartering
Bulk Ventures Limited	BVI	1 share of US$1	**100**	100	Investment holding
Champion Bay Limited	BVI/Int'l	1 share of US$1	**100**	100	Vessel owning and chartering
Delphic Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	HK/Int'l	1 share of HK$1	**100**	100	Vessel owning and chartering
Elizabay Limited	BVI/Int'l	1 share of US$1	**100**	100	Vessel owning and chartering
Elizabeth Castle Limited	BVI	1 share of US$1	**100**	100	Vessel chartering
Esperance Bay Limited	HK	1 share of HK$1	**100**	–	Vessel owning
Everclear Shipping (BVI) Limited	BVI/Int'l	3,100,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Foreview (HK) Limited	HK/Int'l	10 Class 'A' shares of US$1 each, 2,500,000 Class 'B' shares of US$1 each	**100**	100	Vessel owning and chartering
Francesca Shipping (BVI) Limited	BVI/Int'l	3,000,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Future Sea Limited	HK/Int'l	1 share of HK$1	**100**	100	Vessel owning and chartering
Good Shape Limited	HK/Int'l	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**	100	Property holding
Helen Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Illuminous Limited	BVI	1 share of US$1	**100**	100	Vessel owning
Judith Shipping (BVI) Limited	BVI/Int'l	3,800,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Kumberstar Limited	BVI/Int'l	1 share of US$1	**100**	100	Vessel owning
Labrador Shipping (BVI) Limited	BVI/Int'l	3,800,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Lake Stevens Limited	HK/Int'l	1 share of HK$1	**100**	100	Vessel owning and chartering
Matakana Island Limited	HK	1 share of HK$1	**100**	–	Vessel owning
Mega Fame Limited	BVI	1 share of US$1	**100**	100	Vessel owning

38 Principal Subsidiaries (Continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2009 %	Interest held 2008 %	Principal activities
Mount Adams Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Mount Rainier Limited	HK/Int'l	1 share of HK$1	100	100	Vessel owning and chartering
Newman Shipping (BVI) Limited	BVI/Int'l	2,600,100 shares of US$0.01 each	100	100	Vessel owning and chartering
Nobal Sky Limited	BVI/Int'l	1 share of US$1	100	100	Vessel owning and chartering
Othello Shipping (BVI) Limited	BVI/Int'l	2,659,300 shares of US$0.01 each	100	100	Vessel owning
PacMarine Services Co., Ltd.	Korea	10,000 shares of 5,000 Won each	100	100	Surveying and consultancy services
PacMarine Services (HK) Limited	HK	2 shares of HK$1 each	100	100	Surveying and consultancy services
PacMarine Services LLC [1]	Texas, USA	1,000 units of US$1 each	100	100	Surveying and consultancy services
PacMarine Services Pte. Ltd. [1]	Singapore	1,000 shares of S$1 each	100	100	Surveying and consultancy services
Pacific Basin Agencies Limited 太平洋航運代理有限公司	HK/Int'l	1 share of HK$1	100	100	Holding company of Japan branch
Pacific Basin Chartering Limited	BVI/Int'l	10 shares of US$1 each	100	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 2) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 3) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 4) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 5) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 6) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 7) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 8) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 9) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 10) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 11) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	HK/Int'l	1 share of HK$1	100	100	Vessel chartering
Pacific Basin IHC Limited	BVI/HK	10 shares of US$1 each	100	100	Ship management services
Pacific Basin IHC (UK) Limited	E&W	2 shares of GBP1 each	100	100	Ship management services
Pacific Basin IHX Limited	HK	1 share of HK$1	100	100	Ship management services
Pacific Basin IHX (UK) Limited	E&W	1 share of GBP1	100	100	Ship management services
Pacific Basin Shipping (Australia) Pty Ltd [1]	AUS	1 share of AUD1	100	100	Shipping consulting services
Pacific Basin Shipping (Canada) Limited	BC, Canada	1 common share without par value	100	100	Shipping consulting services
Pacific Basin Shipping (Chile) Limitada	Chile, Santiago	Chilean pesos equivalent to US$6,000	100	–	Shipping consulting 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$500,000 (registered capital)	100	100	Shipping consulting services
Pacific Basin Shipping (Germany) GmbH	Germany	1 share of EUR25,000	100	100	Shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運(香港)有限公司	HK	2 shares of HK$10 each	100	100	Ship agency services
Pacific Basin Shipping Middle East DMCC [1]	Dubai Multi Commodities Centre (DMCC)	500 shares of AED1,000 each	100	–	Shipping consulting services
Pacific Basin Shipping (New Zealand) Limited [1]	New Zealand	100 shares without par value	100	100	Shipping consulting services

38 Principal Subsidiaries (Continued)

Company	Place of incorporation/ operation[3]	Issued and fully paid share capital	Interest held 2009 %	Interest held 2008 %	Principal activities
Pacific Basin Shipping (UK) Limited	E&W	2 shares of GBP1 each	**100**	100	Shipping consulting services
Pacific Basin Shipping (USA) Inc.	USA	100 shares of US$10 each	**100**	100	Ship management services
PB Bunkers (BVI) Limited	BVI/Int'l	1 share of US$1	**100**	100	Joint venture partner in Seafuels Limited
PB Commerce Limited	BVI/HK	1 share of US$1	**100**	100	Investment holding
PB Maritime Personnel Inc. [1]	The Philippines	1,730,000 shares of PHP$10 each	**100**	100	Crewing services
PB Maritime Services Holdings Limited	BVI	500,000 shares of US$1 each	**100**	100	Investment holding
PB Maritime Services Limited (Formerly "Pacific Basin Ship Management Limited")	HK	1 share of HK$1	**100**	100	Ship management services
PB Pearl Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug & barge owning and chartering
PB Pride Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug & barge owning and chartering
PB Progress Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Sea-Tow Asia Pte. Ltd.[1]	Singapore	1 share of US$1	**100**	–	Tugs Chartering
PB Sea-Tow (Australia) Pty Ltd	AUS	1 share of AUD 1	**100**	100	Ship management services
PB Sea-Tow (Awanuia) Limited	New Zealand	100 shares without par value	**100**	–	Crew management services
PB Sea-Tow (BVI) Limited	BVI/Int'l	1 share of US$1	**100**	100	Ship management services
PB Sea-Tow (NZ) Limited	New Zealand	1 share without par value	**100**	100	Ship management services and barge owning
PB Towage (No.1) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage (No.2) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage (No.3) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Barges owning and chartering
PB Towage (No.4) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage (No.5) Limited	Cook/Int'l	2 shares of US$1 each	**100**	–	Tug owning and chartering
PB Towage Assets Holdings Pty Ltd	AUS/Int'l	1 share of AUD 1	**100**	90.1	Tug owning and chartering
PB Towage Asset (No.1) Limited	Cook/Int'l	2 shares of US$1 each	**100**	90.1	Tug owning and chartering
PB Towage Asset (No.2) Limited	Cook/Int'l	2 shares of US$1 each	**100**	100	Tug owning and chartering
PB Towage Assets #3 Pty Ltd	AUS/Int'l	1 share of AUD 1	**100**	–	Tugs owning and chartering
PB Towage Assets #4 Pty Ltd	AUS/Int'l	1 share of AUD 1	**100**	–	Tugs owning and chartering
PB Towage (Australia) Holdings Pty Ltd	AUS	1,000 shares of AUD 1 each	**100**	90.1	Tugs owning and chartering
PB Towage Australia (Onslow) Pty Ltd	AUS	1 share of AUD 1	**100**	–	Tugs owning and chartering
PB Towage (Australia) Pty Ltd	AUS	1,390,100 shares of AUD2.34 each	**100**	90.1	Ship management services
PBS Corporate Secretarial Limited	HK	1 share of HK$1	**100**	100	Secretarial services
Prospect Number 59 Limited	E&W	1 share of GBP1	**100**	100	Vessel owning and chartering
Prospect Number 60 Limited	E&W	1 share of GBP1	**100**	100	Vessel owning
Supreme Effort Group Limited	BVI/Int'l	1 share of US$1	**100**	100	Vessel owning and chartering
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	Agency and ship management services
Uhland Shipping (BVI) Limited	BVI/Int'l	100 shares of US$0.01 each	**100**	100	Vessel owning and chartering

1 The financial statements of these subsidiaries have not been audited by PricewaterhouseCoopers. The aggregate net assets and net profit for the year attributable to the shareholders of the Group amounted to approximately US$13,042,000 (2008: US$30,243,000) and US$645,000 (2008: US$640,000) respectively.

2 These subsidiaries are wholly foreign-owned enterprises established in the PRC, with registered capital fully paid up by the Group.

3 Under the place of incorporation/operation, "AUS" represents "Australia", "BVI" represents "The British Virgin Islands", "Cook" represents "The Cook Island", "E&W" represents "England and Wales", "HK" represents "Hong Kong" and "Int'l" represents "International".

GROUP FINANCIAL SUMMARY

US$'000		**2009**	2008	2007	2006	2005
Results						
Revenue		**950,477**	1,690,948	1,177,292	620,444	433,704
Gross profit		**152,796**	358,597	384,522	128,969	149,931
Eligible profit attributable to shareholders		**112,800**	297,911	472,125	110,292	147,143
Profit before taxation		**112,001**	412,408	473,021	111,427	147,922
Taxation		**(1,723)**	(3,618)	(889)	(1,135)	(779)
Profit after taxation		**110,278**	408,790	472,132	110,292	147,143
Attributable to:						
Shareholders		**110,278**	409,119	472,125	110,292	147,143
Minority interests		**–**	(329)	7	–	–
		110,278	408,790	472,132	110,292	147,143
Balance Sheet						
Total assets		**2,469,893**	2,330,505	1,654,336	919,895	674,117
Total liabilities		**(1,014,326)**	(1,111,803)	(786,769)	(434,902)	(364,843)
Total equity		**1,455,567**	1,218,702	867,567	484,993	309,274
Net cash/(borrowings)		**229,084**	175,929	(10,730)	(287,223)	(233,174)
Cash and deposits		**1,105,662**	1,023,741	649,535	63,242	83,711
Cash Flows						
From operating activities		**145,337**	459,083	313,979	148,188	173,291
From investment activities of which		**(177,776)**	(244,496)	101,982	(241,075)	24,683
gross investment in vessels		**(279,543)**	(316,757)	(257,464)	(285,138)	(118,826)
From financing activities		**55,718**	110,754	170,332	74,048	(157,544)
Change in cash and cash equivalent for the year		**23,279**	325,341	586,293	(18,839)	40,430
Other Data						
Basic EPS	US cents	**6**	24	30	8	12
Dividends per share[1]	US cents	**3**	10	15	6	8
Eligible profit payout ratio[2]		**51%**	57%	52%	71%	73%
Cash flows from operating activities per share	US cents	**8**	27	20	11	14
Net book value per share	US cents	**76**	70	55	31	24
Dividends	US$'000	**57,222**	170,142	243,572	78,562	107,591

[1] The 2009 dividends include the proposed final dividend of HK 15 cents per share.

[2] 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. Klaus Nyborg (Chief Executive Officer)
Mr. Jan Rindbo (Chief Operating Officer)
Mr. Wang Chunlin

Non-executive Directors
Mr. Daniel R. Bradshaw
Mr. Richard M. Hext

Independent Non-executive Directors
Mr. Robert C. Nicholson
Mr. Patrick B. Paul
Mr. Alasdair G. Morrison

Principal Board Committees

Executive Committee
Mr. Klaus Nyborg (Chairman)
Mr. David M. Turnbull
Mr. Jan Rindbo
Mr. Wang Chunlin
Mr. Andrew T. Broomhead

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

Remuneration and Nomination Committees
Mr. Robert C. Nicholson (Chairman)
Mr. Patrick B. Paul
Mr. Alasdair G. Morrison
Mr. Daniel R. Bradshaw

Principal Place of Business
7th Floor, Hutchison House
10 Harcourt Road, Central
Hong Kong
tel: + 852 2233 7000

Registered Address
Clarendon House
2 Church Street
Hamilton HM11
Bermuda

Offices World Wide
Hong Kong, Shanghai, Beijing, Dalian, Nanjing, Manila, Tokyo, Seoul, Singapore, Auckland, Sydney, Melbourne, Fremantle, Fujairah, Dubai, Bad Essen, London, Liverpool, Houston, Santiago and Vancouver

Share Registrar
Computershare Hong Kong Investor Services Limited
17M Floor
Hopewell Centre
183 Queen's Road East
Wanchai, Hong Kong
tel: + 852 2862 8555 fax: + 852 2865 0990
e-mail: hkinfo@computershare.com.hk

Auditors
PricewaterhouseCoopers

Solicitors
Mayer Brown JSM
Linklaters
Vincent T.K. Cheung, Yap & Co.

Company Secretary
Mr. Andrew T. Broomhead, FCPA
e-mail: companysecretary@pacificbasin.com

Website
http://www.pacificbasin.com

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

Stock Code
Stock Exchange: 2343
Bloomberg: 2343 HK
Reuters: 2343.HK

Listing Date
14 July 2004

Total Shares In Issue
1,928,846,119 as at 31 December 2009

Public and Investor Relations
The Company
e-mail: ir@pacificbasin.com
tel: + 852 2233 7000

INFORMATION FOR SHAREHOLDERS

Financial Calendar for 2010	Planned Date
2009 annual results	**2 March**
Last day of dealings in Shares with entitlement to 2009 final dividend	15 April
Ex-dividend date	16 April
Deadline for lodging transfers for entitlement to (i) attend the annual general meeting and (ii) 2009 final dividend	4:30 pm HK time, 19 April
Book closure period (all days inclusive)	20 to 22 April
Q1 trading activities update	21 April
Record date for 2009 final dividend	22 April
Annual General Meeting	**22 April**
2009 final dividend payment date	30 April
2010 interim results	**3 August**
Last day of dealings in Shares with entitlement to 2010 interim dividend	13 August
Ex-dividend date	16 August
Deadline for lodging transfers for entitlement to 2010 interim dividend	4:30 pm HK time, 17 August
Book closure period (all days inclusive)	18 to 19 August
Record date for 2010 interim dividend	19 August
2010 interim dividend payment date	27 August
Q3 trading activities update	28 October

Annual Report

The Annual Report is printed in English and Chinese languages, and is available on our website at www.pacificbasin.com no later than the date on which it is sent to shareholders who have elected to receive a printed copy, i.e. 18 March 2010.

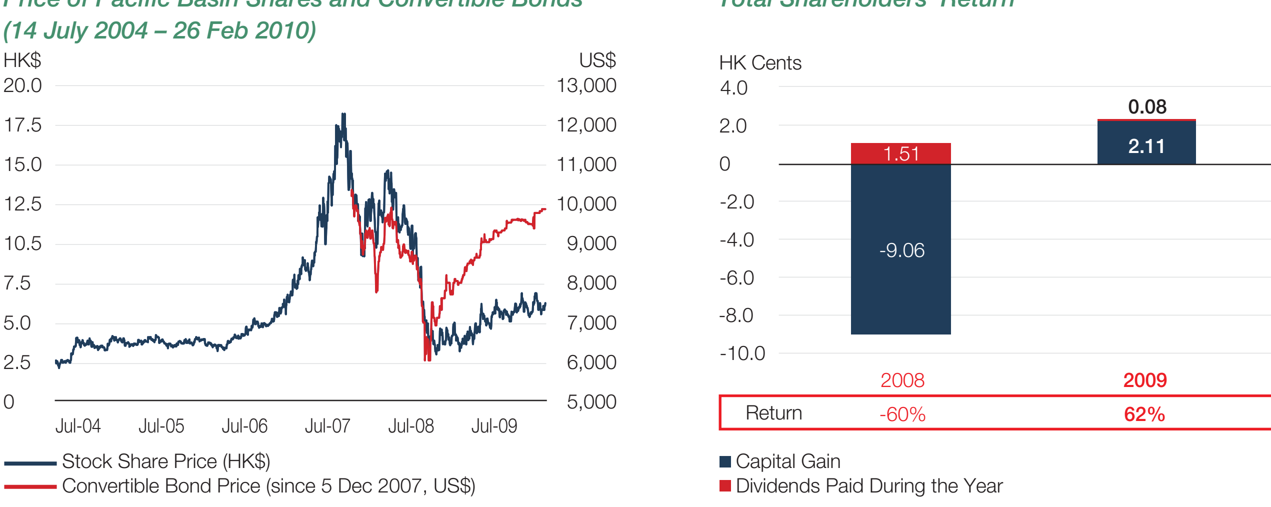
Closure of Register of Members

Planned to be closed from 20 to 22 April 2010 (all days inclusive) and from 18 to 19 August 2010 (all days inclusive).

Annual General Meeting

To be held at 10:30 a.m. on Thursday, 22 April 2010.

Share Price Performance

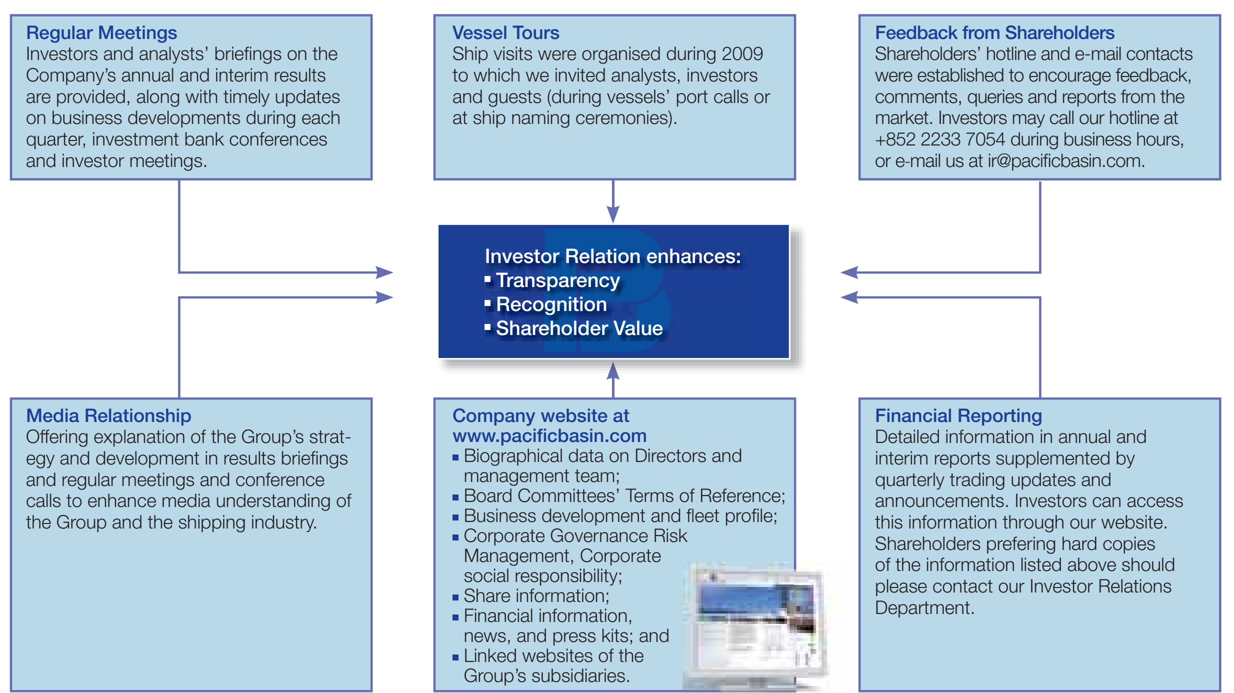


As at 31 December 2009, the market capitalisation of Pacific Basin was US$1.4 billion. The Company's issued Shares are a constituent member of Hang Seng sub index series and MSCI Index series.

Investor Relations and Corporate Communications

Pacific Basin's policy is to ensure a high degree of transparency regarding its operation. We are committed to ensuring the market is informed of relevant information about the Company on a regular basis, allowing existing and potential shareholders to evaluate the Company, its performance and its prospects. Pacific Basin values the communications with its existing and potential investors and believes that investor relations efforts can help the public enhance its understanding of the Company, increase its recognition of the Company'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 adopted in 2009:



INFORMATION FOR SHAREHOLDERS

During 2009, Pacific Basin received a number of awards for its efforts including:

- "Best Dry Bulk Owner/Operator Award" organised by Lloyd's List Asia Awards 2009
- "The Bulk Operator Award" organised by Seatrade Asia Awards 2009
- "Best Performing Ship Management Company in Port State Control Inspection" organised by H.K.S.A.R. Marine Department in 2009
- Pacific Basin also received five awards at the 11th Annual IR Global Rankings 2009
  - "Top 5 Corporate Governance in Asia/Pacific"
  - "Top 5 Corporate Governance in Greater China"
  - "Top 5 Financial Disclosure in Asia/Pacific"
  - "Top 5 Financial Disclosure in Greater China"
  - "Top 5 IR Websites in Greater China"

Shares Information

As at 31 December 2009, the Company had 1,928,846,119 ordinary shares in issue, each with a par value of US$0.10. As at that date, the Company had 375 registered shareholders (of whom 328 or 87.47% holding in aggregate 1,921,287,907 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 98.5% 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 send an e-mail 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 21 April 2009. Resolutions were passed to approve (i) the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2008; (ii) the re-election of Directors; (iii) the fixing of the remuneration of the Directors by the Board; (iv) the re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2009 and to authorise the Board to fix their remuneration; (v) the general mandate to issue Shares; (vi) the general mandate to repurchase Shares; (vii) the renewal of the 2% annual cap within the issue mandate under the Long Term Incentive Scheme; and (viii) the amendment of Bye-law 127(1).

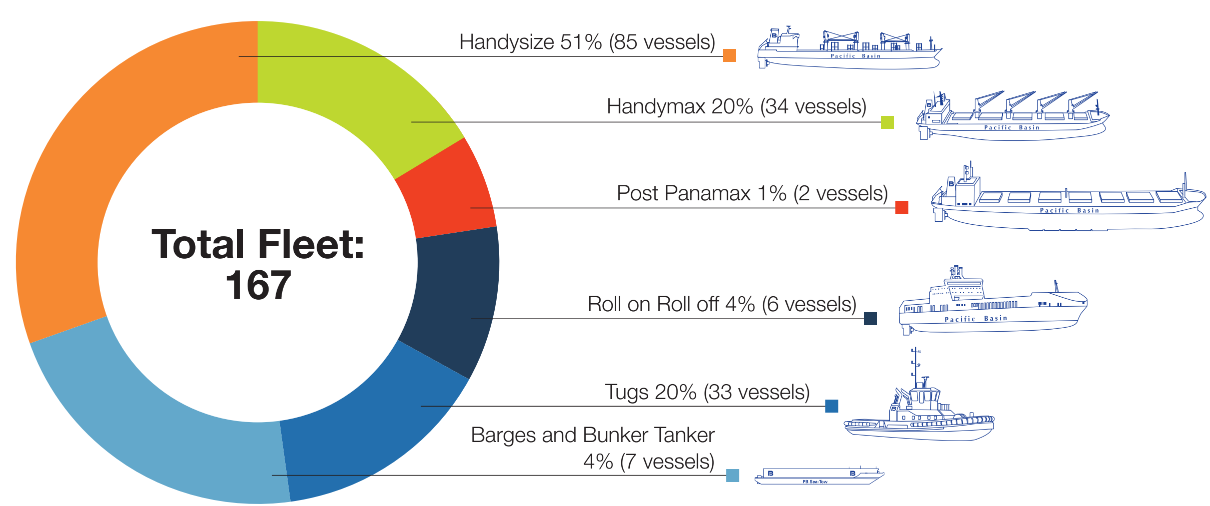
All resolutions tabled at the annual general meeting were voted on by poll.

This Annual Report contains just some of many excellent photos taken by Pacific Basin staff and friends during the last year. We thank everyone who has contributed images of our ships and colleagues in action, especially Chris Howell, Damen Shipyards Gorinchem, Paul Walton, Paul Beutel, Marco Chow, Dr. Basi Menon, Kevin Moore, Jan Udink, Adel Abu-Aysha, Matthew Wathern, Suresh Prabhakar, Mark Hardy, Emily Lau, Stanley Choi and Minda Po.

FLEET SUMMARY

At 28 February 2010

Pacific Basin Fleet Distribution



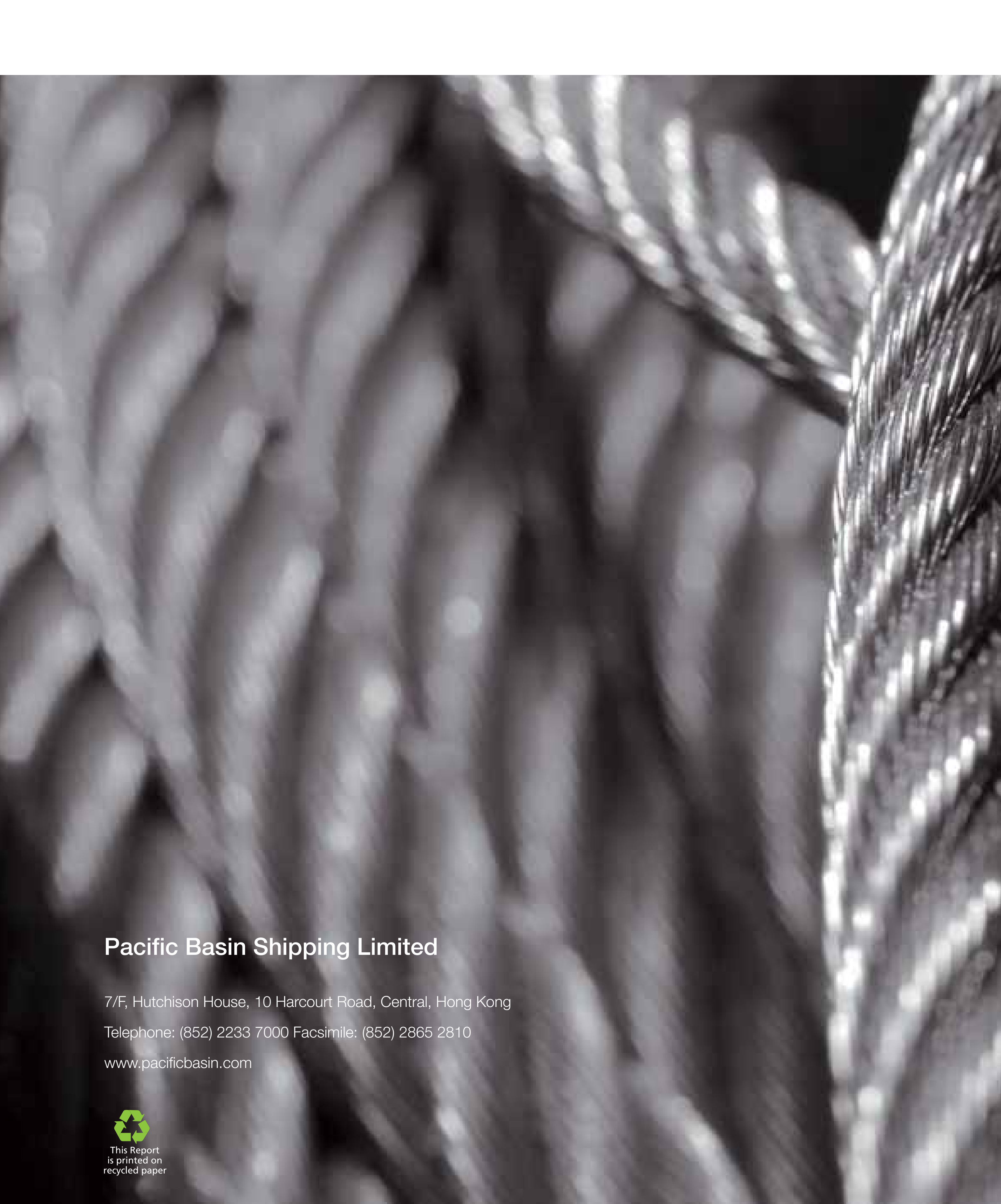
	Delivered		Newbuildings on order		
	Owned	Chartered[1]	Owned	Chartered[1]	Total
Dry Bulk					
Handysize	24	55	1	5	85
Handymax	2	31	–	1	34
Post Panamax	–	–	1	1	2
Total Dry Bulk Vessels	26	86	2	7	121
Towage					
Tugs	23[2]	3	6	1	33
Barges	6	–	–	–	6
Bunker Tanker	1[2]	–	–	–	1
Total Towage Vessels	30	3	6	1	40
Roll on Roll off	1	–	5[3]	–	6
Grand Total	57	89	13	8	167

Notes:

1 *Our chartered fleet comprises 13 vessels under finance leases and 84 vessels under operating leases. It also includes non-core dry bulk vessels chartered in for shorter term periods.*

2 *The Group has a 50% interest in one of the tugs and in the bunker tanker through its 50/50 joint ventures.*

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.*



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