# Pacific Basin Shipping Limited

Dry Bulk • Energy and Infrastructure Services • RoRo

Stock Code : 2343

## Annual Report

# 2010

# Contents



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

# Results Highlights

## Group

- **Group profit was US$104 million** (2009: US$110 million) in a relatively strong year for our dry bulk operation, although not a fully satisfactory year for the Group overall
- **Underlying profit was US$120 million** (2009: US$116 million) before the impact of unrealised non-cash adjustments and the scaling down of two investments
- **Basic earnings per share were HK$0.42** (2009: HK$0.46). Return on average equity was 7%
- **Operating cash flow increased strongly to US$199 million** (2009: US$145 million)
- **Issued US$230 million of new 1.75% convertible bonds** in April to refinance the majority of our original 3.3% convertible bonds all of which will have been cancelled during first quarter 2011
- **Balance sheet retains substantial buying power with US$703 million in cash and deposits** and net borrowings of US$156 million
- **Fully funded vessel capital commitments** of US$364 million in dry bulk vessels and US$47 million in RoRo vessels
- **Full year dividend of HK 21.5 cents per share** (2009: HK 23 cents) including a proposed final dividend of HK 16.5 cents

## Fleet

- **Contract cover in place for 56% of our combined handysize and handymax revenue days in 2011**. 47% of our contracted 22,950 handysize revenue days in 2011 are covered at US$13,340 per day net (at 22 February 2010: 59% of 22,630 days at US$14,290)
- **Purchased 22 dry bulk vessels and long term chartered another 10** since reviving our fleet expansion activity in December 2009
- **Fleet now numbers 184 vessels** (including newbuildings) comprising 136 dry bulk vessels, 41 tugs and barges, 1 bunker tanker and 6 RoRos

## Outlook

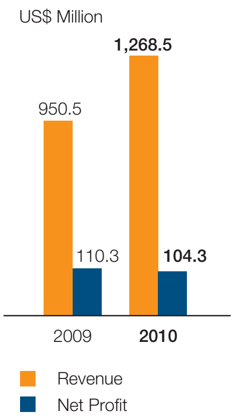
- **Handysize dry bulk market in 2011 is expected to be weaker than 2010**, with near term demand recovery being eclipsed by continued newbuilding deliveries. However, we remain encouraged by prospects for the longer term
- **Dry bulk core fleet remains cost competitive** and, from end 2012 onwards, will benefit from newbuildings we contracted in 2010
- **Mixed outlook for energy and infrastructure services** with encouraging signs of improvement in the Australian offshore towage market offset by expected negative contribution from the Middle East
- **Charter market for RoRo vessels is expected to remain depressed** resulting in a loss-making year for PB RoRo, despite ongoing marginal improvement in freight volumes for the sector
- **Our strategic goals remain unchanged** as we seek to expand further our dry bulk fleet and business whilst considering divestment of certain non-core assets

# Financial Summary

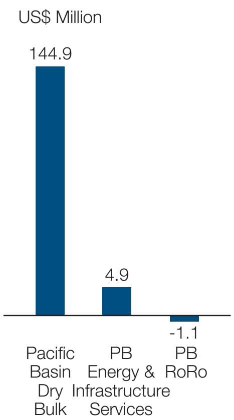
| | YOY % change | 2010 US$ Million | 2009 US$ Million | 2008 US$ Million |
|---|---|---|---|---|
| **Results** | | | | |
| Revenue | *33.5%* | **1,268.5** | 950.5 | 1,690.9 |
| Gross profit | *4.3%* | **159.3** | 152.8 | 358.6 |
| Finance costs, net | *14.3%* | **(31.2)** | (27.3) | (22.1) |
| Underlying profit | *3.5%* | **119.8** | 115.8 | 320.7 |
| Net profit attributable to shareholders | *(5.4%)* | **104.3** | 110.3 | 409.1 |
| **Balance Sheet** | | | | |
| Total assets | *3.5%* | **2,555.4** | 2,469.9 | 2,330.5 |
| Net (borrowings)/cash # | | **(156.0)** | 229.1 | 175.9 |
| Shareholders' equity | *6.1%* | **1,544.9** | 1,455.6 | 1,218.7 |
| Cash and deposits # | *(36.4%)* | **703.4** | 1,105.7 | 1,023.7 |
| Capital commitments | *37.6%* | **426.9** | 310.3 | 445.8 |
| **Cash Flows** | | | | |
| Operating | | **198.6** | 145.3 | 459.1 |
| Investing | | **(462.2)** | (177.8) | (244.5) |
| Financing | | **(96.5)** | 55.7 | 110.8 |
| Change in cash | | **(360.1)** | 23.3 | 325.3 |
| **Per Share Data** | | **HK cents** | HK cents | HK cents |
| Basic EPS | *(8.7%)* | **42** | 46 | 189 |
| Dividends | *(6.5%)* | **21.5** | 23 | 76 |
| Operating cash flows | *32.8%* | **81** | 61 | 212 |
| Net book value | *6.2%* | **621** | 585 | 543 |
| Share price at year end | *(8.2%)* | **517** | 563 | 352 |
| Market capitalisation at year end | | **HK$10.0bn** | HK$10.9bn | HK$6.2bn |
| **Ratios** | | | | |
| Net profit % | | **8%** | 12% | 24% |
| Eligible profit payout ratio | | **51%** | 51% | 57% |
| Return on average assets | | **4%** | 5% | 21% |
| Return on average equity | | **7%** | 8% | 35% |
| Total shareholders' return | | **(5%)** | 62% | (60%) |
| Net (borrowings)/cash to book value of property, plant and equipment | | **(10%)** | 23% | 22% |
| Net (borrowings)/cash to shareholders' equity | | **(10%)** | 16% | 14% |
| Interest coverage | | **4.3X** | 5.1X | 10.4X |

# *analysed on page 34 of the Financial Review*

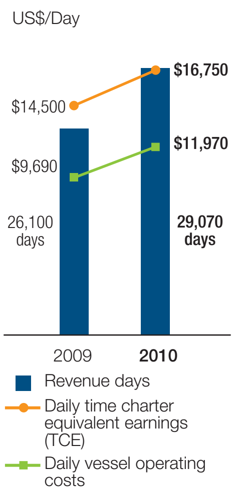
## *Revenue and Net Profit*




## *Segment Net Profit*




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



# Chairman's Statement


*'Champion Bay' departing from the Port of Longview, Washington State*

## Overview

Our cornerstone dry bulk business benefitted from a good start for the handysize and handymax markets in early 2010. Despite a much weaker second half of the year, average handysize spot rates in 2010 increased significantly, once again outperforming other dry bulk segments relative to their average earnings in 2009. We consider 2010 to have been a relatively strong year for our dry bulk operation notwithstanding the exceptional market of 2007 and 2008.

Even so, and despite some encouraging developments in our other core markets, 2010 was not a fully satisfactory year for Pacific Basin overall. Furthermore, many of the negative influences on the dry bulk, energy and infrastructure, and RoRo markets remain present as we progress further into 2011.

Pacific Basin produced net profits of US$104 million in 2010 (2009: US$110 million), basic earnings per share of HK$0.42, and a return on average shareholders' equity of 7%. Operating cash flow increased strongly to US$199 million (2009: US$145 million).

Our underlying profit for the year was US$120 million before the impact of unrealised non-cash adjustments and the scaling down of two investments. This represented a 3% improvement over our underlying profit of US$116 million in 2009.

As at 31 December 2010, we had cash and deposits of US$703 million. We returned to a net borrowing position of US$156 million following payments relating to ship acquisitions, including new dry bulk commitments made since embarking on our fleet expansion efforts in December 2009. After eight dry bulk vessel deliveries in 2010, our current remaining vessel capital expenditure obligations amount to US$411 million payable between 2011 and 2014 in respect of 20 ships. We continue our strategy of directing new investment predominantly towards our dry bulk activity and, considering our current capital commitments and cash position, still have substantial buying power on our balance sheet.

## Pacific Basin Dry Bulk

The handysize and handymax bulk carrier markets got off to a good start in 2010 with strong commodity transport demand generally keeping pace with fleet growth in the first half of the year. As we anticipated, rates weakened over the second half, although sliding lower and for longer than we expected following a series of exceptional circumstances. Even so, looking at 2010 as a whole, handysize and handymax average spot rates increased 45% and 30% respectively year on year. This increase was not fully reflected in our earnings due to the lower value of our cargo book coming into 2010 which no longer benefitted from higher rate cover that we had secured ahead of the financial crisis.

Buoyancy early in the year was largely due to strong growth in minor bulk commodity demand from China and other emerging economies, a normalisation of demand in OECD countries leading to restocking and, in turn, reduced availability of foreign raw materials supply causing China to source from its domestic resources thus increasing Chinese coastal bulk transportation.

Weakness in the second half was initially triggered by seasonally reduced activity in the middle of the year followed by a fall in Chinese commodities imports due to government policy moves related to energy consumption targets, reduced margins for steel producers and a normalisation of inventory management – all at a time of unprecedented dry bulk fleet expansion especially in the larger bulk carrier segments. The depressed market at the end of the year has since been exacerbated by severe flooding in Australia, Brazil and Colombia – all major raw materials exporters – and consequently the seasonal upswing that we expected to see from November 2010 and into early 2011 did not materialise. The market continued to fall further resulting in early February 2011 seeing the lowest rates since the dysfunctional start to 2009.

The strategic focus of our Pacific Basin Dry Bulk division in 2010 remained trained on the continued expansion of our fleet of handysize and handymax ships at reasonable cost. Since reviving our fleet expansion activity in December 2009, we have purchased 22 vessels and chartered in on a long term basis another ten, of which only eight had delivered and partly contributed to our earnings in 2010. Our new acquisitions included six 35,000 dwt ships of enhanced, fuel-efficient design that we contracted with Jiangmen Nanyang Ship Engineering ("JNS") in China, as well as five 58,100 dwt ships from Tsuneishi Group's Chinese yard, all delivering between mid-2012 and the end of 2013.

By mid-2010, ship values had increased strongly to US$28 million for a benchmark five year old handysize vessel, though they have since fallen to US$25 million in the wake of the recent freight market slump. This still represents an improvement of approximately 14% since the end of 2009 and, whilst last year's significant increase in asset values has now diminished, we expect the current downward pressure on values to generate interesting vessel acquisition opportunities during 2011.

Our cargo volumes increased 9% in 2010 with significant growth in the carriage of minor bulks and soft commodities offsetting a reduction in coal and ore volumes. Contracts performed as expected with again no counterparty defaults reflecting the strength of our customers and our minimal exposure to long term outward time charters – a valuable advantage at a time when the survival of some dry bulk operators may be in question.

In line with our policy to secure future earnings to provide a degree of protection if demand proves unable to absorb significant fleet growth, we have locked in forward cargo cover of 56% for our expanded handysize and handymax fleet as at 17 February 2011.

## PB Energy & Infrastructure Services

The towage and infrastructure services markets in Australia and the Middle East continued to be adversely affected by difficult conditions following the global economic crisis. The offshore charter market in Australia remained weak until late in 2010 because of project deferrals due to pre-election politics, and financial and environmental considerations. This was compounded by surplus supply of offshore support vessels caused by recent new vessel deliveries. Our FBSL joint venture endured continuing difficult market conditions resulting in the need to scale down the business and make a sizeable impairment of this investment. On a more positive note, PB Towage's Australian offshore logistics operations continued to perform well, and our Australian harbour towage business increased its market share on the back of new contracts and has benefitted from strong commodity exports mainly to China. In 2010, we took delivery of seven harbour tugs and two offshore support tugs, which brings our total PB Towage fleet to 42 vessels, with currently no more to deliver.

## PB RoRo

The RoRo market continued to suffer in 2010 with only slow and fragile recovery in the sector's core European economy proving insufficient to spur RoRo operators to charter additional vessels at a time of relatively significant new ship deliveries. Our first RoRo vessel continued to trade successfully in the North Sea and we took delivery later in the year of two Hyundai Mipo newbuildings. These are now deployed in the new Nafta Gulf Bridge RoRo service between Veracruz and Mobile, a start-up in which we invested in December, which offers shippers of trailers a faster, safer and more reliable route between the Eastern United States and Southern Mexico. Earlier in the year, we expanded our specialist ship management joint venture in the United Kingdom to include a significant commercial management function in order to enhance our RoRo marketing capability. Our remaining three newbuildings are scheduled to deliver from Odense Steel Shipyard over 2011 and, with employment secured for four of our vessels, we are actively engaged in developing employment for the last two.

## Financing

On 12 April 2010 we issued US$230 million of new convertible bonds (due in 2016) with a 1.75% coupon to refinance the majority of our 3.3% coupon original convertible bonds (due in 2013) amounting to US$314 million as at 31 December 2009. Over the full year we repurchased US$209 million of the original 2013 convertible bonds at or below face value. The remaining US$105 million of the original 2013 convertible bonds will have been redeemed and cancelled by 4 March 2011 following the exercise of put options by investors and call options by the Company.

## Fleet Development

As at 25 February 2011, the Group's fleet (including newbuildings) numbered 184 vessels comprising 136 dry bulk ships, 41 tugs and barges, one bunker tanker and six RoRos. We await the delivery of 23 owned or long term chartered bulk carriers and three RoRos in 2011 to 2014.

## Dividend

The Board has recommended a final dividend of HK 16.5 cents per share bringing the total for 2010 to HK 21.5 cents per share (2009: HK 23 cents), representing a payout ratio of 51% of profits excluding disposal gains.

## Outlook

2011 started poorly for the dry bulk market with the Baltic Dry Index ("BDI") in early February at its lowest level since January 2009. We anticipate a stronger second quarter due to a recovery in flood-affected Brazilian and Australian exports and the onset of the South American peak grain export season. However, we anticipate that the market for our dry bulk ships in 2011 will be weaker than in 2010 as positive forces such as recovery from regional export disruptions and increased scrapping are ultimately overshadowed by continued significant newbuilding deliveries during the year. Even so, we still expect to benefit from our core fleet's competitive breakeven costs which for 2011 are currently lower than they were last year.

We remain encouraged by prospects for the minor bulk segments in the longer term on the back of expected measurable improvement in the supply/demand balance. This positive outlook is based on our customers' optimism about their own shipping needs, and our expectations of increased scrapping and the unblocking of commodity supply bottlenecks through new infrastructure investment allowing dry bulk transportation demand to catch up with much expanded supply.

*'Taihua Star' loading logs at Gold River, Canada*

We are encouraged by the improved outlook for PB Towage in 2011 as we anticipate a measurable improvement in the Australian market and therefore better prospects for our offshore towage business. However, due to the progress that still needs to be made in harbour towage and expected negative contributions from our Middle East activities this year, our outlook for PB Energy & Infrastructure Services in 2011 remains less than satisfactory overall. We still believe, however, that this division is well positioned to benefit from increasing activity and new opportunities in our focus region of Australasia.

We expect the charter market for RoRo vessels to remain depressed resulting in a loss-making year for PB RoRo, despite the ongoing marginal improvement in freight volumes for the sector. We recognise also that developing the new Nafta Gulf Bridge trade in the current climate will present many challenges for Pacific Basin and our joint venture partners. However, we remain positive on the longer term prospects for our RoRo business.

Strategically our focus remains unchanged as we press on with efforts to expand our core dry bulk fleet and equip our business with the tools to support our increased scale and provide the best possible service to our customers. We expect current weakness in the dry bulk freight market will generate interesting opportunities to continue the expansion of our fleet. Following the successful partial sale of our shares in Green Dragon Gas, we will consider further divestment of certain non-core assets in 2011 and beyond.

In closing, I am confident that we have positioned ourselves appropriately to grow and perform well in these challenging times, building on past successes attributable largely to our diligent staff and loyal customers whom I thank for their continued commitment and support in the future.

**David M. Turnbull**
*Chairman*

Hong Kong, 1 March 2011

# Business Review and Outlook


*'Esperance Bay' naming and launching ceremony at Imabari Shipyard in Japan*

*'Kiwi Trader' underway with a cargo of logs*

# Pacific Basin Dry Bulk

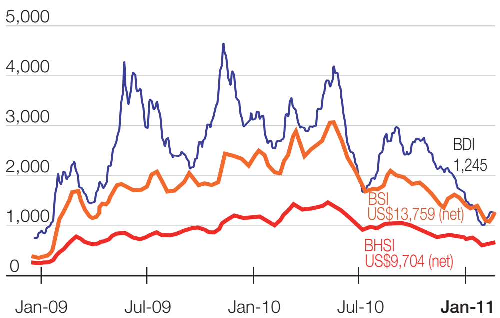
## Dry Bulk Market Review

The handysize and handymax bulk carrier markets got off to a good start in 2010 with freight rates continuing their upward trend of the previous year. As we anticipated, rates weakened over the second half of the year, though sliding lower and for longer than we expected towards the year end on the back of a series of exceptional circumstances such as severe flooding and Chinese policy moves related to energy consumption targets. By the end of December, freight rates had reached their lowest levels in 18 months. Even so, looking at the year as a whole, handysize and handymax spot rates averaged US$15,600 and US$21,300 per day net, representing a 45% and 30% increase respectively over average rates in 2009. This increase was not fully reflected in our earnings due to the lower value of our cargo book coming into 2010 which no longer benefitted from higher rate cover that we had secured ahead of the financial crisis.

By contrast, the market for the largest bulk carriers started the year on a downward trajectory culminating in a 22% decrease in average freight rates year on year. This was despite twice surging over 100% during 2010 on short term buoyancy generated by increased Chinese imports, again illustrating the greater volatility in this large ship segment. The Baltic Dry Index ("BDI") traded between 4,200 and 1,700 points, with the annual average BDI increasing only 5.4% year on year to 2,750 points, which is consistent with our neutral 2010 outlook stated a year ago.

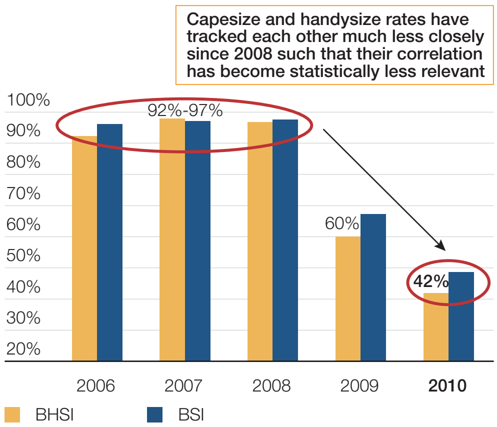
The freight market has continued to fall since the start of 2011 exacerbated by the Queensland floods and the annual rush of new ship deliveries at the start of the year. As at 25 February, handysize spot rates stood at US$9,700 and the BDI at 1,245 points – the latter having recovered somewhat since early February when it was down to depressed levels last seen in January 2009. Australian and Brazilian exports have started to recover in the aftermath of the January floods, and an increase in scrapping of older capacity and lay up of large bulk carriers should provide some further relief.

***Baltic Dry Index (BDI) versus Baltic Handysize Index (BHSI) & Baltic Supramax Index (BSI)***




Source: The Baltic Exchange, as at 25 Feb 2011

***Spot Earnings Correlation between Handysize / Handymax and Capesize***



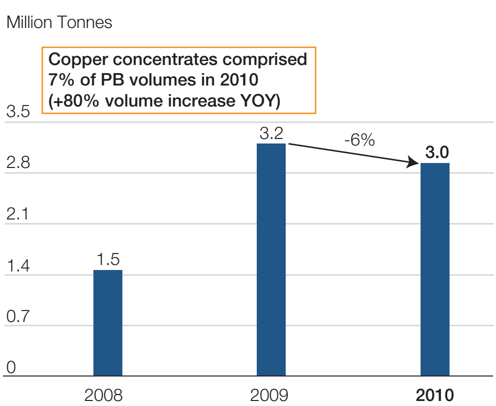

Source: The Baltic Exchange

Handysize and handymax again faired better than other dry bulk segments in 2010 relative to their average earnings in the previous year. Despite a similar general trend across the various segments in part due to the effect of broader market sentiment, we see a decreasing correlation between our handysize market and the market for capesize bulk carriers which we attribute to differing supply and demand characteristics.

We consider the following developments to have had significant influence on our handysize and handymax dry bulk markets in 2010:

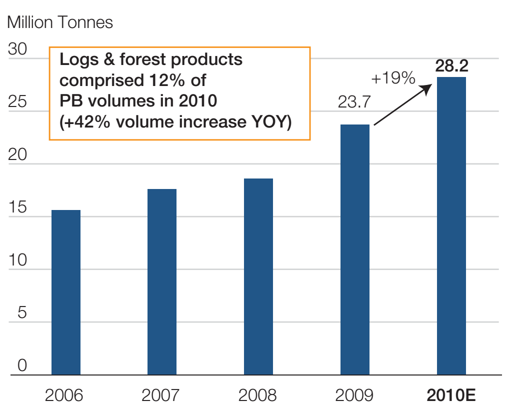
- Buoyancy early in the year was largely due to strong growth in minor bulk commodity demand from China and other emerging economies, a normalisation of demand in OECD countries leading to restocking and, in turn, reduced availability of foreign raw materials causing China to source from its domestic resources thus increasing Chinese coastal bulk transportation.
- Weakness in the second half was initially triggered by seasonally reduced activity in June followed by a fall in Chinese commodities imports due to reduced margins for steel producers, a normalisation of inventory management, and government policy moves related to energy consumption targets – all at a time of unprecedented dry bulk fleet expansion especially in the large bulk carrier segment.
- The depressed market in the final quarter was exacerbated by severe flooding in Australia, Brazil and Colombia – all major raw materials exporters and, consequently, the seasonal upswing that we expected to see towards the year end did not materialise.
- Significantly increased imports of grains (such as wheat and soya bean) and minor bulks into China, whose imports accounted for 31% of global bulk trade in 2010.

### *China Imports of Copper Concentrates*



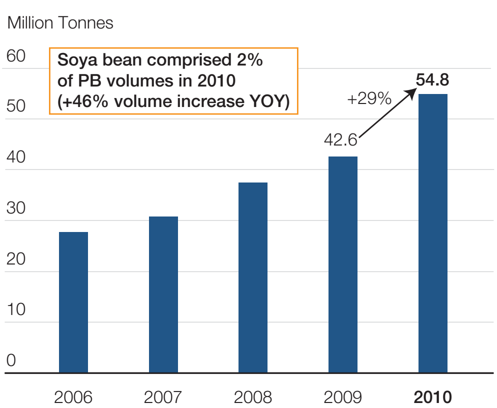

Source: Bloomberg
Data available since 2008

### *China Imports of Forest Products*



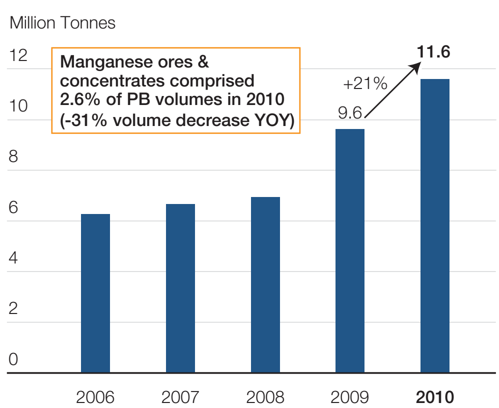

Source: Clarksons

### *China Imports of Soya Bean*




Source: Bloomberg

### *China Imports of Manganese Ores & Concentrates*




Source: Bloomberg

- Increased inefficiency in global dry bulk fleet utilisation, which we believe will persist in the longer term, due to:
  - China and other emerging economies assuming a greater share of worldwide dry bulk imports, combined with much smaller dry bulk exports, further driving East-West trade imbalances and, in turn, inefficiency in fleet utilisation (see text box);
  - significantly higher fuel costs making repositioning of ships between the Pacific and Atlantic increasingly expensive, thus contributing to a less flexible dry bulk fleet and, consequently, a measurable earnings differential between the two oceans; and
  - new vessel categories, such as post-panamax and the very largest new supramax designs frequently not being loaded to their maximum capacity, thereby introducing a new form of fleet inefficiency.
- Weather-related phenomena such as droughts in Russia and India, and flooding in Australia and Brazil have affected crop and mining output, trade patterns and, in turn, demand for dry bulk shipping. Flooding related disruptions in Australia and Brazil alone are estimated by analysts to have cut dry bulk exports in January 2011 by 13 million tonnes. Whilst not expected to be long term, these disruptions have had an immediate effect on freight rates for small as well as large bulk carriers, which in some cases fell to levels last seen in the dysfunctional market in late 2008 and early 2009.
- Self-imposed export bans on Russian grain and Indian iron ore had a significant negative impact on handymax earnings during 2010.
- The accelerated pace of newbuilding deliveries continued throughout 2010 which, combined with only very limited scrapping, contributed to excessive, record high net fleet growth. The delivery of most new capacity from Chinese and other Asian shipyards into the Pacific impacted Pacific market earnings in particular, with this regional over-supply exacerbated by a reduced readiness by owners to reposition ships to the Atlantic due to high fuel costs.

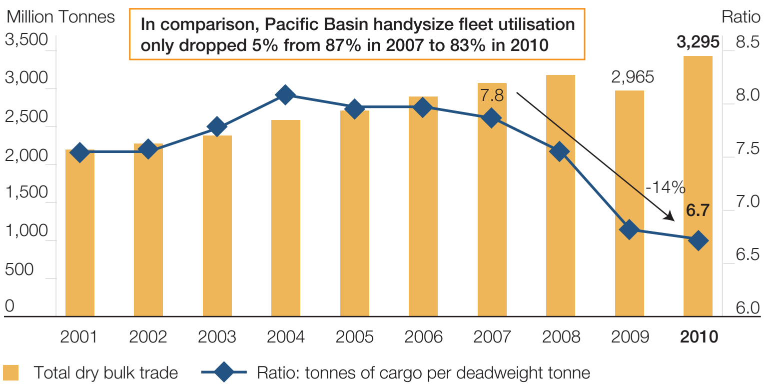
***Trade imbalances significantly boost tonne-mile demand***

This phenomenon results not only from longer average distances between load and discharge ports (loaded), but also from longer ballast voyages (empty) as more and more ships discharging in the Asia Pacific region have to ballast to more distant load zones, often on the other side of the world. This is especially so as the gap between Asian imports and exports widens due to booming imports, frequently contributing to significant differentials in freight rates between the Pacific and Atlantic basins.

Growing imbalances were already very apparent in the capesize segment and the iron ore trades prior to the global financial crisis but, importantly for our business, we are now seeing similarly less efficient patterns emerge in the smaller ship segments, especially in the grain and soybean trades, for example, in which Asian destinations enjoy an increasing share of South American exports.

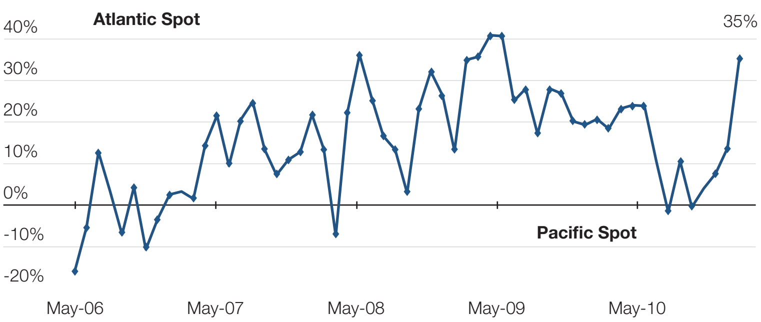
The effects are apparent in our own handysize fleet utilisation levels which reduced about 5% from 87% in 2007 to 83% in 2010, much lower than the global fleet utilisation decrease of around 14% over the same period.

***Global Dry Bulk Fleet Utilisation***



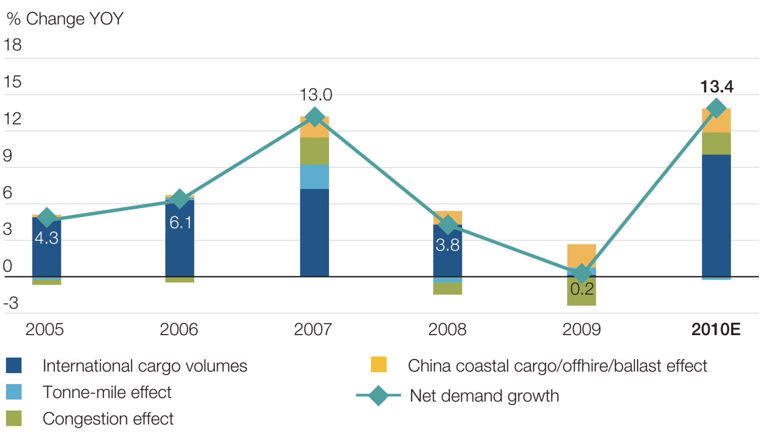

Source: Clarksons

***Pacific vs Atlantic Handysize Earnings Differentials***



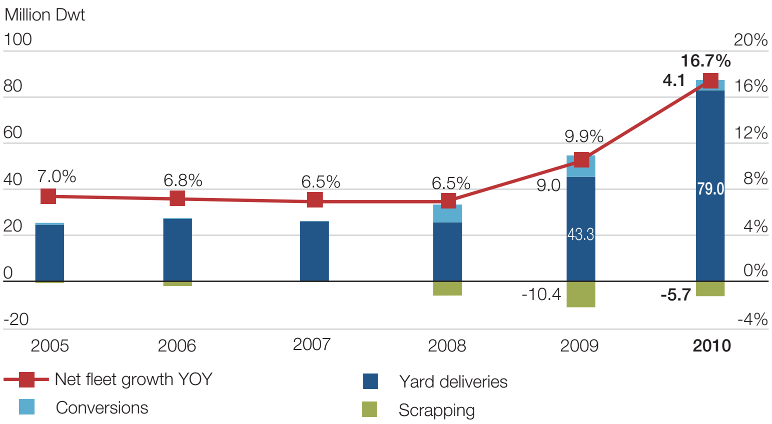

Source: The Baltic Exchange

## Global Dry Bulk Demand Development




Source: R.S. Platou, Clarksons

## Global Dry Bulk Fleet Development



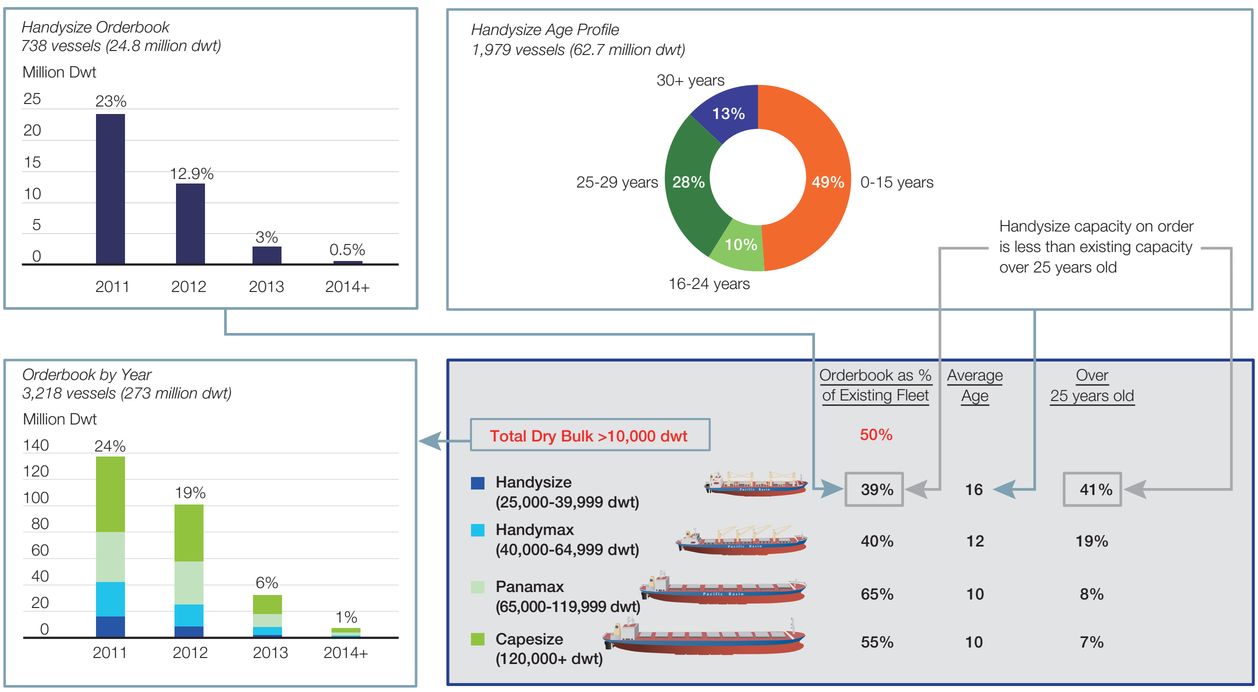

Source: Clarksons

R.S. Platou estimates demand for dry bulk transportation in 2010 grew 13.4% year on year – the highest level of growth since 2003 – reflecting the strong global appetite for commodities compared to 2009 which was let down by the dysfunctional market at the start of that year.

79 million tonnes of new dry bulk capacity delivered in 2010, driving dry bulk net fleet growth of 17% during the year. This is significantly above the 7% level of 2004-2008 and the 10% fleet expansion of 2009, and we believe represents a degree of year on year fleet expansion not seen in 40 years. Newbuilding deliveries were 84% greater than in the previous year with only very limited scrapping. The handysize fleet grew by 11% net year on year whereas the capesize fleet experienced more punishing growth of 22% accounting for much of total dry bulk fleet expansion in 2010.

While newbuilding deliveries have accelerated, recorded deliveries in 2010 fell short of the scheduled orderbook at the start of the year by 38% – similar to the shortfall observed in 2009.

## Dry Bulk Orderbook Analysis




Source: Clarksons, data as at 1 Feb 2011

Encouraged by the improved market conditions, ship owners ordered 130% more new dry bulk capacity in 2010 than in 2009 and, as at 1 February 2011, the orderbook for handysize vessels stood at 39% as compared with 50% for the total dry bulk fleet and 55% for capesize vessels.

Whilst we believe yard deliveries are unlikely to accelerate from current levels, 2011 will again be difficult with 137 million dwt of new dry bulk capacity scheduled to deliver this year, before considering the potential delivery shortfall which we expect will be approximately 30-40%. Such shortfall or delays in deliveries are more likely to benefit the handysize segment as smaller, newer yards face greater financial difficulty than well established, larger yards which are generally engaged in the more profitable construction of larger ships.

Most burdened by the orderbook are major bulk vessels for which the outlook is bleak throughout 2011 and into 2012. The less onerous orderbook for minor bulk ships – handysize in particular – combined with the segment's older age profile and diverse range of cargoes, leads us to expect handysize vessels to fare better than other dry bulk segments over the longer term, with a challenging outlook for 2011 giving way to an improved demand/supply balance in 2012.

Driven by the relatively strong freight market of the first half of 2010, ship values surged to US$28 million in June before softening over the remainder of the year. Clarksons currently estimates the value of a benchmark five year old handysize at US$25 million, albeit based on little recent transaction volume. This still represents an improvement of 22% since values bottomed out in mid-2009, and 14% since we revived our fleet expansion in December 2009. Whilst last year's significant increase in asset values has now been partly eradicated, we expect the current downward pressure on values to generate interesting opportunities for vessel acquisitions during 2011.

### *5 Year Old 28,000 Dwt Handysize Vessel Values*


Source: Clarksons

### *Handysize & Handymax Definitions*

With some of the newest handysize log/bulkers and supramax vessels designed to carry over 35,000 and 60,000 tons of cargo respectively, we now show data based on handysize vessels of **25,000-40,000** dwt and handymax vessels of **40,000-65,000** dwt.


1 *PB's technical staff ensure high quality technical operations and manning*
2 *'Tiwai Point' commences her first laden voyage carrying sugar from Bundaberg, Australia to Auckland, New Zealand*
3 *Logs being loaded*

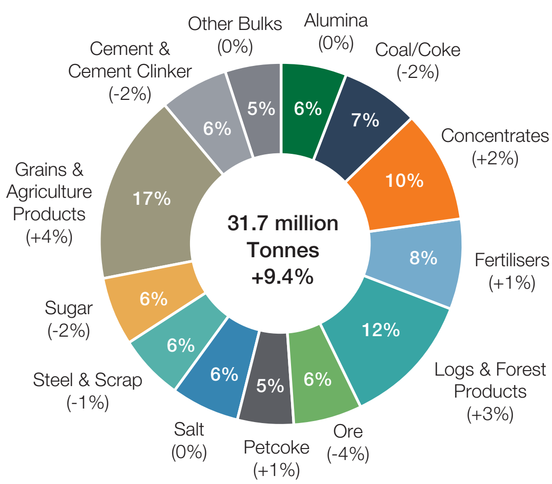
## Business Review

Our cornerstone Pacific Basin Dry Bulk division continues to operate one of the world's largest and most modern fleets of uniform handysize and handymax ships which we deploy under contracts of affreightment ("COAs"), spot market fixtures and, occasionally, period time charters to meet our customers' transportation needs.

Pacific Basin Dry Bulk generated a net profit of US$145 million (2009: US$138 million), return on net assets of 21% (2009: 29%) and strongly increased operating cash flow of US$199 million (2009: US$157 million) mainly reflecting a 16% increase in Pacific Basin's average handysize daily earnings and a larger number of ships operated. These improved results were generated despite a 38% decrease in the profitability of our handymax activities due to the increased cost of short term chartered in ships and a corresponding reduction in profit margins, offset by a less significant increase in revenue days.

| | Handysize | | Handymax | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| Average number of ships operated | **80** | 72 | **34** | 31 |
| Cargo volume (Million tonnes) | **19.7** | 18.1 | **12.0** | 10.8 |
| Net profit (US$) | **136 million** | 124 million | **9 million** | 14 million |
| Operating cash flow (US$) | **187 million** | 140 million | **12 million** | 17 million |
| Daily charter rates earned (US$) | **16,750** | 14,500 | **22,570** | 19,490 |
| Indices (US$ net, av. BHSI/BSI) | **15,600** | 10,775 | **21,300** | 16,471 |
| Daily vessel operating costs (US$) | **11,970** | 9,690 | **21,690** | 18,120 |
| Return on net assets | **22%** | 28% | **12%** | 64% |

***Pacific Basin Dry Bulk Cargo Volumes 2010***

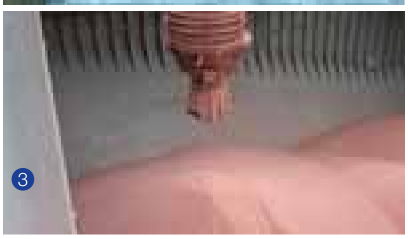



( )% Change in proportion since 2009

We operated an average of 114 dry bulk ships during the year (2009: 103 ships) and have added 22 purchased ships and ten long term chartered ships to our core dry bulk fleet since reviving our fleet expansion activity in December 2009. These new acquisitions include six 35,000 dwt ships of enhanced, fuel-efficient design that, as previously announced, we contracted with JNS shipyard in China, as well as five 58,100 dwt ships from Tsuneishi Group's Zhoushan yard also in China.

Our cargo contracts performed as expected in 2010 with no counterparty defaults, reflecting the strength of our counterparties and minimal exposure we have to long term outward time charters.







1 *'Esperance Bay' in Japan*
2 *Steel loading on 'Kaiti Hill' in Bayuquan, China*
3 *Potash loading in Vancouver*
4 *Hull cleaning after discharging cement clinker in Hawaii*

Our cargo volumes increased 9% in 2010. While we carried less ore and coal than in 2009, thus further disconnecting us from larger bulk carrier segments, we carried significantly more minor bulks and soft commodities. In particular, we transported:

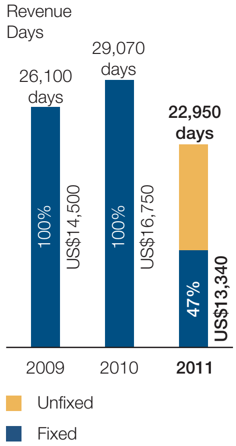
- 50% more logs from New Zealand, the United States and Canada on increased Chinese demand for seaborne log imports at the expense of logs imported from Russia by land;
- 80% more copper concentrates from South America and Indonesia to North Asia;
- 40% more grain and agriculture products with a growing proportion destined for China;
- 20% more fertilisers;
- 34% more minor bulks into the United States; and
- more cargoes out of China and more into South America and the United States, complementing our traditional front-haul cargo volumes thereby increasing the utilisation of our fleet.

We have commenced an internal project to review our systems and business processes with a view to upgrading our business software and streamlining the way we work. We intend to implement these changes within 2011, which will give us an appropriately advanced platform to support Pacific Basin's continued future growth.

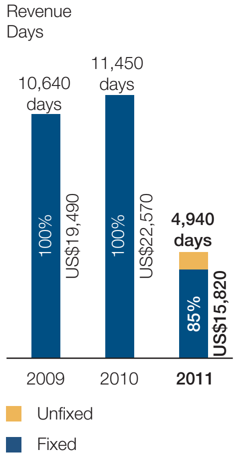
Our in-house technical operations team provided the highest quality of maintenance and crewing of our ships, meeting or exceeding the most stringent regulatory requirements with minimal off-hire averaging 1.6 days per vessel. The team had an exemplary external inspection record, excelling in areas of safety, care of cargo and the environment, thus underpinning the world-class service we provide to our customers.

In line with our strategy to secure forward cargo cover, we have covered 56% of our 2011 contracted combined dry bulk ship revenue days, and we currently expect the majority of our uncovered 2011 revenue days will generate revenue from the spot market. We are also focused on building our forward cargo book for 2012 and beyond.

## *Handysize Contract Cover and Daily TCE*




## *Handymax Contract Cover and Daily TCE*




| | Unit | Handysize FY 2010 | Handysize FY 2011 | Handymax FY 2010 | Handymax FY 2011 |
|---|---|---|---|---|---|
| **Vessel Activity Summary** (as at 17 February 2011) | | | | | |
| **Cargo Commitments** | | | | | |
| Revenue days | days | **29,070** | 10,960* | **11,450** | 4,330 |
| Net paper contracts | days | **–** | (90) | **–** | (120) |
| Equivalent revenue days | days | **29,070** | 10,870 | **11,450** | 4,210 |
| Daily TCE | US$ | **16,750** | 13,340 | **22,570** | 15,820 |
| **Ship Commitments** | | | | | |
| Revenue days | days | **29,070** | 22,950 | **11,450** | 4,940 |
| **Net Position** | | | | | |
| Cargo as % of ship commitments | % | **100%** | 47%** | **100%** | 85% |
| **FFA Activity Summary** | | | | | |
| FFA paper sold | days | **1,590** | 330 | **3,530** | 840 |
| FFA paper bought | days | **(225)** | (450) | **(3,600)** | (990) |
| Net realised paper exposure | days | **(1,365)** | 30 | **70** | 30 |
| Net FFA paper sold/(bought) | days | **–** | (90) | **–** | (120) |

2011 Combined Cover: 56%

* *Includes 1,010 revenue days from vessels chartered in on an index-linked basis*

** *By comparison, as at this time last year (22 February 2010), we had covered 59% of our contracted 22,630 handysize revenue days in 2010 at US$14,290 per day net*

## Outlook

We expect the following market-related factors to be amongst the most influential drivers of the dry bulk sector in 2011:

| Positive Factors | Negative Factors |
|---|---|
| ■ **China's continued dependence on imported minor bulks from further afield, exacerbating trade imbalance and inefficient utilisation of shipping capacity**<br>■ Strong growth in developing countries resulting in increased construction and greater steel and raw materials demand<br>■ Increased restocking and trading inefficiencies in the aftermath of Brazil and Queensland floods, and harsh northern hemisphere winter driving demand for commodities such as coal and salt<br>■ Tougher times for shipbuilding (due to higher steel cost, weaker US Dollar, poorer shipping market and reduced bank lending and ship ordering) may lead to slippage in 2011 deliveries as yards decelerate production<br>■ Increased scrapping of older capacity due to the significant dry bulk capacity over 25 years old<br>■ Generally increased congestion due to recent dry bulk fleet expansion overshadowing global port capacity growth<br>■ Increasing fuel prices impacting on operating speeds and utilisation efficiency | ■ **Continued excessive newbuilding deliveries**<br>■ Dry bulk shipping demand stifled by shortfall in mining capacity and other commodity supply bottlenecks<br>■ High commodity prices leading to reduced speculative buying for stock building<br>■ Higher iron ore price favours Chinese switch to domestic production in lieu of import<br>■ Wet weather and flooding in Australia, Brazil and Colombia to impact first half 2011 exports |

We anticipate seeing a number of positive forces come into play in 2011, though the single most influential factor is likely to again be the high level of newbuilding deliveries throughout the year. We expect dry bulk to benefit from a stronger second quarter as demand improves on the recovery in flood-affected Brazilian and Australian exports and the onset of the South American peak grain export season, and as the annual rush of new ship deliveries at the start of the year eases. Nevertheless, we anticipate that 2011 will be weaker than 2010. Even so, we still expect to benefit from our core fleet's competitive breakeven costs which for 2011 are currently lower than they were last year.

*'Taihua Star' loading logs in New Zealand*

Despite our dampened view for the year, we remain encouraged by prospects for the minor bulk segments in the longer term with a measurably improved supply/demand balance expected in 2012 and beyond. This positive long term outlook is based on our customers' optimism about their own shipping needs, and our expectations of increased scrapping and the unblocking of commodity supply bottlenecks through new infrastructure investment allowing dry bulk transportation demand to catch up with much expanded supply.

Our recent fleet expansion activities have favoured the acquisition of newbuilding vessels most of which are scheduled to deliver from late 2012 onwards, which fits well with our expectations for a much healthier market in the longer term. Strategically, therefore, our focus remains substantially unchanged: we will continue to evaluate acquisition and inward charter opportunities with a view to further expanding our dry bulk fleet whilst mindful of maintaining our competitive breakeven cost. We also aim to build our forward cargo book for 2012 and beyond whilst employing the majority of our uncovered 2011 capacity in the spot market.

## Our Business Model: Differentiating Pacific Basin from the BDI

Much of what separates Pacific Basin's performance from that of the broader dry bulk market (as approximately tracked in the BDI) comes down to the increasingly differentiated demand and supply characteristics of the smaller dry bulk ship segments in which we are engaged, combined with our choice of business model for our fleet.

The markets for larger and smaller bulk carriers have become less correlated in recent years as capesize and handysize spot rates track each other less closely. Notwithstanding the effect of broader market sentiment, we expect this partial decoupling to persist with handysize and handymax vessels performing better than other dry bulk segments. There are several reasons for this. **Handysize and handymax segments benefit** from:

- smaller newbuilding orderbooks and therefore less pressure from new ship supply
- older global fleet age profiles resulting in earlier removal of capacity through scrapping
- a diverse range of commodities carried and trade patterns, largely eliminating exposure to the demand-side vagaries of seaborne trade in iron ore and coal (in practice the only commodities that can be carried by capesize bulk carriers)
- greater access to many more ports which can only accommodate smaller vessels
- growing global minor bulk trade imbalances as China and other emerging economies assume a greater share of commodity imports from increasingly distant sources, leading to:
  - growth in tonne-mile demand for minor bulks; and
  - significantly reduced global fleet utilisation

In all but the last point, the opposite is true of the capesize and, to a lesser extent, panamax segments which together are the main drivers of the BDI, and it is for these reasons that average handysize spot rates in 2010 increased 45% year on year when average capesize rates fell 22%.

**Our business model seeks to leverage** on all these beneficial segment attributes, in particular the smaller dry bulk segments' access to more diverse trades, through four broad characteristics:

- The scale of our **fleet** and interchangeable nature of our ships, combined with our significant book of complementary contract cargoes, allows us to optimise our scheduling. This helps us provide our customers with a competitive and reliable service while maximising our fleet's utilisation and earnings capability by reducing ballast legs. The reliability of our service is enhanced by the fact that we are ship owners as well as operators, with a comprehensive, in-house technical operations capability that allows us to assure the quality of our owned and finance-leased ships and their crew.

- Our **global network of offices** places us close to our customers around the world, ensuring first-rate, local and personal customer service, maximised market intelligence, and a clear understanding of our customers' needs.

- Our **customer focus** facilitates strong relationships with over 200 mainly industrial commodity producers and end-users, and broad access to both spot cargoes and longer term cargo contract opportunities. This has enabled us to build a substantial portfolio of cargo contracts which affords our customers reliable and competitive long term freight cover whilst securing protracted employment cover and increased earnings stability for ourselves.

- Our **corporate profile** allows us to engage closely with good partners and stakeholders, including customers, ship owners, shipyards, suppliers and some of the best talent in our industry. Our strong balance sheet, reputation and performance track record set us apart as a preferred counterparty for our cargo customers and tonnage providers and afford us access to excellent business opportunities.

## PB Energy & Infrastructure Services

### Market & Business Review

The PB Energy & Infrastructure Services division generated a net profit in 2010 of US$4.9 million (2009: US$8.2 million), a return on net assets of 2% and an operating cash flow of US$22.6 million (2009: US$11.6 million).

- PB Towage made a net profit in 2010 of US$1.0 million (2009: US$1.0 million)
- Fujairah Bulk Shipping L.L.C. ("FBSL"), our joint venture with the Government of Fujairah, contributed a profit of US$2.9 million (2009: US$6.3 million) to Pacific Basin's results, before making a US$19 million impairment

The difficult market conditions of 2009 continued in 2010 with businesses engaged in the infrastructure and offshore support and harbour towage sectors adversely affected by fall out from the global economic crisis.

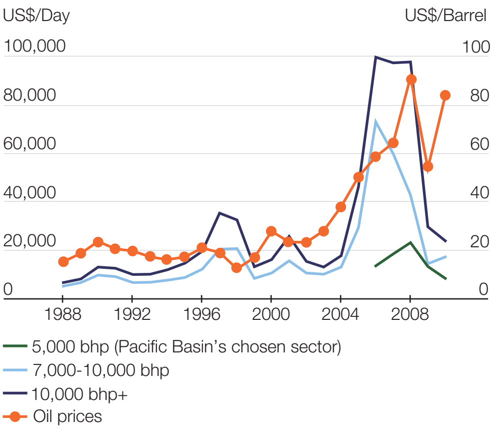
*Offshore Towage and Infrastructure Support Services*

The offshore charter market remained weak until late in 2010 due to sluggish growth in oil production and limited investment in oil and gas exploration globally, including in our main market in Australia where pre-election politics and environmental issues caused several energy projects to be deferred. The market was also affected by a surplus supply of offshore support vessels following recent excessive newbuilding deliveries. Similarly, protracted difficult economic conditions in the Middle East were not able to support the revival in infrastructure projects that had been expected to commence in the region last year.

In such market conditions, it is gratifying that PB Towage's Australian offshore logistics operations continued to perform well despite the deferral of Australian projects negatively impacting the utilisation of some of our assets. Towards the end of the year, we secured a contract to transport aggregates for the Queensland Curtis LNG project at Gladstone for which shipments commenced in February 2011, and we have tendered for a number of further projects expected to take place this year. PB Towage's utilisation levels in the Middle East increased on the back of a slight pick-up in oil and gas sector activity, though excess supply has kept charter rates depressed in the region.

With most of our towage businesses in and around Australia, we relocated the head office of PB Towage from Hong Kong to Perth last year in order to consolidate the company's management activities closer to its main operations.

### *Towage Vessel Charter Rates versus Oil Price*




Source: Clarksons, Energy Information Administration (EIA), Bloomberg, Pacific Basin

Note: Annual average charter rates & oil prices

### *PB Towage Australasia Focus*

Our FBSL joint venture did well last year to stay ahead of schedule on the Northern Project which is drawing to a close. Unfortunately, however, protracted difficult economic conditions resulted in the need to scale down the business and make a US$19 million impairment.

PacMarine Services, our marine surveying and consultancy business, continued its expansion with the launch of new operations in South America and North East United States and the enlargement of regional teams in Asia, Europe and the Middle East. PacMarine now operates from 16 locations across four continents and continues to add major global oil groups to its customer base, reinforcing its position as the leading service provider in the marine services segment.

*Harbour Towage*

Container shipping to Australia improved in the second half of 2010 from a weak start to the year due to a combination of seasonal trends and a more general recovery, though the expanded container volumes are now increasingly satisfied by larger ships and fewer port calls.

Our Australian harbour towage business PB Towage Australia secured new contracts, most notably in the Port of Townsville, thus increasing its market share in Australia's main ports. Towage activity in bulk ports benefitted from strong commodity exports mainly to China, and our entry into the bulk port towage sector with two exclusive licenses has helped to offset the difficulties of the more competitive container sector.

In 2010, we took delivery of seven harbour tugs and two offshore support tugs for the Gorgon Project. This brings our total PB Towage fleet to 34 tugs, seven barges and one bunker tanker, with currently no further towage vessels on order or scheduled to deliver.

## Outlook

The following market-related factors are expected to have most influence on the towage and infrastructure services sectors during 2011:

| Positive Factors | Negative Factors |
|---|---|
| ■ **Increasing oil and energy prices gradually leading to more offshore projects and related infrastructure development activities with potential start-up in 2011, especially in Australasia** | ■ **Following the Dubai debt crisis, resumption of infrastructure and offshore projects in the Middle East is more hesitant than it had appeared, resulting in continued weak demand for construction materials and aggregates** |
| ■ Further economic recovery to sustain Australian trade growth thereby driving vessel movements in Australian ports | ■ **Excessive offshore fleet expansion impacting rates in the energy and offshore infrastructure markets especially in the Middle East** |
| ■ The shift to larger container ships will drive demand for more powerful harbour tugs of the types we operate, thus allowing PB Towage to increase its market share | ■ Some further delays to new project timelines |
| | ■ New competition from Southeast Asian operators targeting the Australian sector |

We are encouraged by the improved outlook for PB Towage in 2011 mainly because of better prospects for our offshore towage business. However, due to the progress that still needs to be made in harbour towage and an expected negative contribution from our Middle East activities this year, our outlook for PB Energy & Infrastructure Services in 2011 remains less than satisfactory overall.

The flooding in Queensland caused some port closure resulting in temporary disruption to vessel calls in January, but normal operations were soon restored. As long as such flooding does not return to the region, we do not expect this recent weather-related phenomenon to have a significant impact on our 2011 performance.

We anticipate a measurable improvement in the Australian market where PB Towage is now better positioned to benefit from upcoming commercial opportunities, though we are mindful of the risk of further delays to project timelines and the threat of competition from Southeast Asian operators breaking in to the Australian market.

Our greater concern is with our second market in the Middle East where we expect to see only a marginal improvement for PB Towage in 2011.

PacMarine is well placed to continue to consolidate its survey and consultancy services globally.

*Ceremony in the Port of Townsville*

*PB tugs in operation in the Port of Townsville*

## PB RoRo

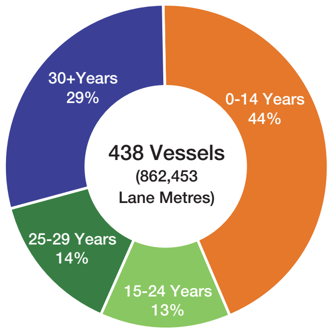
### Market & Business Review

The PB RoRo division generated a net loss of US$1.1 million (2009: profit of US$0.1million), a return on net assets of 0% and an operating cash flow of US$2.8 million.

The slow export-led recovery in the RoRo sector's core European economy was and remains somewhat fragile due in part to slow economic recovery and negative growth in Ireland, Mediterranean countries and the Baltic States. In this context, overall freight demand has experienced some, albeit hesitant, growth but has not yet reached a level at which RoRo operators require additional tonnage, leaving charter demand for freight RoRo vessels still very weak and well below what we had expected a year ago. Newbuilding deliveries, particularly in the larger vessel sector in which we are invested, added to the freight market pressures of last year and, despite relatively high levels of scrapping over the past 12 months, further new ship deliveries are likely to result in continued surplus capacity in the established Northern Europe and Mediterranean trades for the balance of 2011. Time charter rates have therefore continued to weaken.

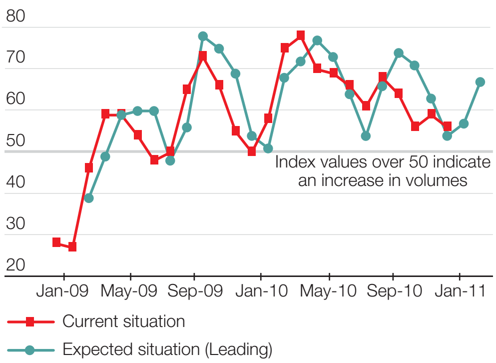
The Danske Bank European Freight Forwarding Index has consistently shown increased volumes since the start of 2010 and forecasts continued growth in freight over the next few months. However, the recovery in the number of trailers carried on the main North European RoRo routes has stalled in recent months and remains somewhat below pre-recession levels, with encouraging increases on some North European and North Sea routes offset by continued weakness in the Irish Sea and elsewhere.

*World RoRo Fleet*




Source: Navitaship, Feb 2011

*European Freight Forwarding Index*




Source: Danske Bank

*Trailers being loaded on 'Humber Viking'*

*Trailers being secured in preparation for sailing*

Outside the core European market, new trades have opened in the Eastern Mediterranean and the Americas. East Asia also offers great potential for the development of new RoRo services, although their introduction is expected to take some time and, initially, RoPax vessels with significant passenger capacity will likely be better suited to these emerging trades than pure freight RoRo ships.

*'Strait of Dover', our second RoRo vessel, is now operating between Mobile and Veracruz*

On the supply side, 2010 saw the delivery of 49,000 lane meters of new capacity into the market (amounting to 5.6% of the year-end fleet of vessels over 800 lane meters), but also a substantial level of scrapping with 106,900 lane meters of old capacity (approximately 12%) removed from the fleet. With some 43% of existing capacity already over 25 years old, there is good potential for further scrapping, while newbuildings on order continue to be limited. However, reflecting the trend towards use of larger vessels on mainstream trades, the orderbook is biased towards ships of more than 3,000 lane meters of the type we own, and so the fleet in this segment is unlikely to start shrinking until 2012. Encouragingly, the very small number of vessels ordered in the last two years supports the case for a significant decline in fleet size thereafter.

Three of the six vessels in our newbuilding programme have now delivered. The "Humber Viking" continues to trade successfully between ports in Holland and the United Kingdom, her three-year time charter having transferred to leading ferry operator DFDS following their recent acquisition of Norfolk Line from the A.P. Moller-Maersk Group. Our two Korean-built RoRo newbuildings delivered from Hyundai Mipo shipyard in September and November.

In December, we invested in NGB Express Lines, a joint venture established to operate the new Nafta Gulf Bridge RoRo service between Veracruz in Mexico and Mobile, USA. This service offers shippers of trailers between the Eastern United States and Southern Mexico (including Mexico City and the surrounding area) substantial reductions in cost, reduced wear and tear on equipment and improved security of transit compared to the overland route through Northern Mexico and the land border with the United States. Our two recently delivered Korean-built ships are deployed in this service for up to four years at escalating charter rates. We recognise that developing this new trade will present many challenges for Pacific Basin and our partners, but we believe that initiating new services of this nature can create additional demand for RoRo shipping.

Our remaining three Odense newbuildings are scheduled to deliver over 2011, their previously announced 8-12 month deferrals having proved well justified in the context of the market weakness in 2010. Four of our vessels have now been employed and we are now actively engaged in developing employment for the remaining vessels but take a realistic view that rate levels, at least initially, will be poor.

All three of our delivered RoRo vessels are operating satisfactorily. Technical, marine and crewing operations as well as newbuilding supervision of our RoRo fleet are provided by our specialist ship management joint venture in the United Kingdom which, as previously reported, was expanded last year to include a significant commercial management capability comprising the combined ferry expertise of the joint venture partners. The joint venture is projected to control a substantial fleet of nine RoRo and six RoPax vessels, enabling us to meet operators' frequent requirement for modern sister vessels trading in tandem.

PB RoRo's goal remains to be a leading supplier of high quality, fuel efficient and operationally attractive freight RoRo capacity to major operators. We will also actively seek to create business in new regions outside the traditional European RoRo market and are confident that in the longer term, as demand recovers, this will prove to be a profitable strategy.


*Nafta Gulf Bridge Serviced Areas*

## Outlook

The following market-related factors are expected to have most influence on the large RoRo sector during 2011:

| Positive Factors | Negative Factors |
|---|---|
| ■ **Global and especially European economic recovery is expected to support modest growth in trailer volumes and short-sea RoRo trades, driven by continued strengthening European exports**<br><br>■ Scrapping will continue to erode the degree of overcapacity, and net contraction of the global fleet of large RoRos is expected to take effect from 2012 following the delivery of most of the current orderbook<br><br>■ New RoRo routes will emerge in the Mediterranean, the Americas and East Asia, although these will generally take some years to come to fruition | ■ **A significant number of large RoRo newbuildings remain scheduled to deliver in 2011**<br><br>■ **RoRo operators in the core European market still have excess capacity and so are reluctant to charter new vessels**<br><br>■ The medium term prospects of some European economies remain uncertain, given the continued sovereign debt crisis and the likely need for further cuts in government spending |

We have been wrong on the timing of a marked and sustainable improvement in the RoRo market, and our rate levels and returns have been unsatisfactory. The charter market for RoRo vessels is expected to remain depressed resulting in a loss-making year for PB RoRo, despite ongoing marginal improvement in freight volumes for the sector.

However, we remain positive on the longer term prospects for our RoRo business, driven by tightening supply and the eventual recovery of European trades and the future development of new trades in the Mediterranean, the Americas and Asia. High earnings sensitivity which is characteristic of an illiquid market should give rise to a measurable rebound in rates when demand returns, and our high quality fleet of newbuildings is well placed to take advantage of this eventual market recovery.

*'Strait of Dover' prior to sailing from Hyundai Mipo Shipyard in Korea*

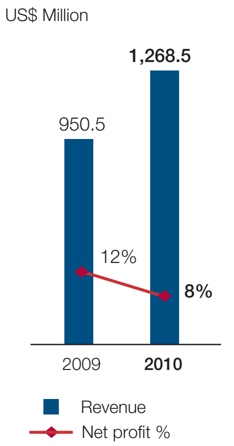
# Financial Review


*'Esperance Bay' at Bluff, New Zealand*

## Consolidated Group Performance

The key drivers that management focuses on to assess the performance of the Group's businesses are: revenue growth; direct costs controls; segment net profit; underlying profit; profit attributable to shareholders; operating cash flow and return on average equity.

***Group Revenue and Net Profit Margin***




| US$ Million | 2010 | 2009 | Change |
|---|---|---|---|
| Revenue | **1,268.5** | 950.5 | +33% |
| Direct costs | **(1,109.2)** | (797.7) | +39% |
| Gross profit | **159.3** | 152.8 | +4% |
| Segment net profit | **146.3** | 141.9 | +3% |
| Underlying profit | **119.8** | 115.8 | +3% |
| **Profit attributable to shareholders** | **104.3** | 110.3 | -5% |
| Operating cash inflow | **198.6** | 145.3 | +37% |
| Net profit margin | **8%** | 12% | -4% |
| **Return on average equity employed** | **7%** | 8% | -1% |

Management considers "underlying profit" to include segment results, treasury results and indirect general and administrative expenses. It excludes disposal gains and losses, impairment charges or their reversal, onerous contract provisions and the unrealised non-cash portion of results from derivative instruments relating to future reporting periods. The exclusion of items from underlying profit requires management judgement.

- Revenue increased 33% mainly due to additional dry bulk vessels operated by the Group and an increase in daily charter rates of the dry bulk vessels.

- Underlying profit was up mainly due to an increase in daily charter rates of the dry bulk vessels, balanced only in part by higher blended daily vessel operating costs.

- Profit attributable to shareholders was down mainly due to:

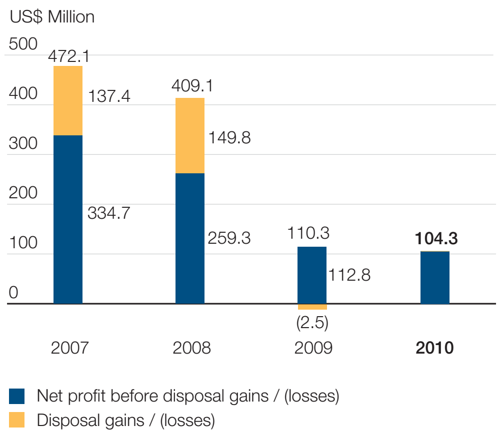
  i) the unrealised derivative expense of US$12.4 million (2009: US$4.5 million) which arose from a reduction in average oil prices for our forward bunker commitments; and

  ii) the impairment on our investment in Fujairah Bulk Shipping of US$19.1 million (2009: nil); offset by

  iii) a partially balancing gain from the sale of some of the shares in Green Dragon Gas Limited of US$16.0 million (2009: nil).

- Operating cash flow was US$198.6 million (2009: US$145.3 million). The Group used a net US$558.7 million (2009: US$122.1 million) of cash after funding capex and net debt flows, leaving the Group with US$703.5 million (2009: US$1,105.7 million) of cash and deposits.

### *Group Net Profit*




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

| US$ Million | 2010 | 2009 |
|---|---|---|
| **Segment net profit** | **146.3** | 141.9 |
| Treasury | **(18.5)** | (13.8) |
| Non direct general and administrative expenses | **(8.0)** | (12.3) |
| **Underlying profit** | **119.8** | 115.8 |
| Unrealised derivative expenses (note) | **(12.4)** | (4.5) |
| Impairment of Fujairah Bulk Shipping | **(19.1)** | – |
| Gain from sale of part of our holdings in Green Dragon Gas | **16.0** | – |
| Future onerous contracts – net provision write-back | **–** | 25.2 |
| RoRo vessel impairment charges | **–** | (25.0) |
| Net dry bulk vessel disposal losses | **–** | (1.2) |
| **Profit attributable to shareholders** | **104.3** | 110.3 |

*Note: Details are set out in "Financial Instruments" section of this Financial Review.*

## Segments Review

The Group derives its revenue primarily from the provision of shipping related services which are analysed by management under the three reporting segments of:

i) Pacific Basin Dry Bulk;

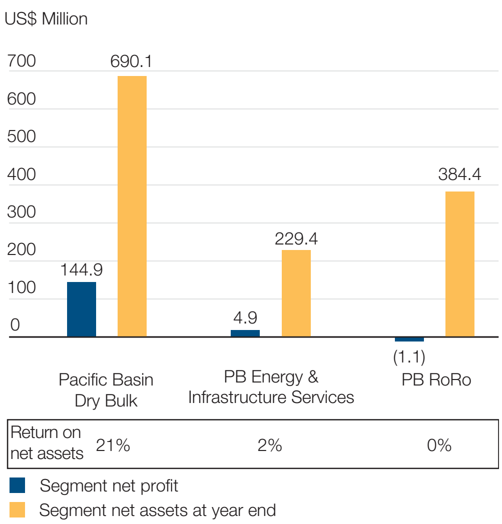
ii) PB Energy & Infrastructure Services; and

iii) PB RoRo.

Other non segment activities mainly comprise Treasury.

Pacific Basin Dry Bulk continues to dominate the Group's activities. The following sections provide further analysis of the Group results and net assets.

### *Segment Net Profit and Net Assets*



## Pacific Basin Dry Bulk Segment

### Income

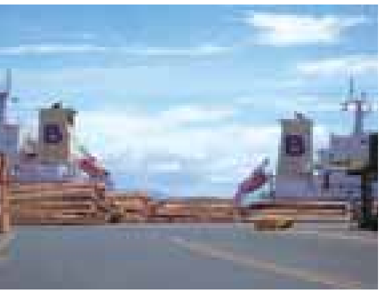
The Group's dry bulk fleet generated US$1,169.4 million (2009: US$904.5 million) or 92.4% (2009: 92.4%) of total segment revenue.

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

| | 1H10 | 2H10 | 2010 | 2009 | Change |
|---|---|---|---|---|---|
| **Handysize** | | | | | |
| Revenue days | **13,940** | **15,130** | **29,070** | 26,100 | +11% |
| Daily charter rates (US$) | **16,840** | **16,670** | **16,750** | 14,500 | +16% |
| Daily vessel operating costs (US$) | **11,750** | **12,170** | **11,970** | 9,690 | +24% |
| Segment net profit (US$ Million) | **69.7** | **66.4** | **136.1** | 124.1 | +10% |
| Segment net assets (US$ Million) | **528.1** | **619.1** | **619.1** | 450.2 | +38% |
| Return on net assets (annualised %) | **26%** | **21%** | **22%** | 28% | -6% |
| **Handymax** | | | | | |
| Revenue days | **5,570** | **5,880** | **11,450** | 10,640 | +8% |
| Daily charter rates (US$) | **23,680** | **21,520** | **22,570** | 19,490 | +16% |
| Daily vessel operating costs (US$) | **22,050** | **21,350** | **21,690** | 18,120 | +20% |
| Segment net profit (US$ Million) | **8.8** | **(0.0)** | **8.8** | 14.1 | -38% |
| Segment net assets (US$ Million) | **54.9** | **71.0** | **71.0** | 22.0 | +223% |
| Return on net assets (annualised %) | **32%** | **0%** | **12%** | 64% | -52% |

Note: *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 and finance leased vessels experienced average off-hire of 1.6 days (2009: 1.3 days) per vessel in the year ended 31 December 2010.



*Logs being loaded onto 'Santiago Basin' and 'Port Phillip' at Tauranga, New Zealand*

| | 2010 | | | 2009 | | |
|---|---|---|---|---|---|---|
| | **Owned & Finance leased** | **Chartered** | **Total** | Owned & Finance leased | Chartered | Total |
| **Handysize** | | | | | | |
| Vessel days | **13,320** | **15,980** | **29,300** | 11,230 | 15,010 | 26,240 |
| Drydocking | **(170)** | **–** | **(170)** | (100) | – | (100) |
| Off-hire | **(60)** | **–** | **(60)** | (40) | – | (40) |
| Revenue days | **13,090** | **15,980** | **29,070** | 11,090 | 15,010 | 26,100 |
| **Handymax** | | | | | | |
| Vessel days | **260** | **11,190** | **11,450** | 110 | 10,530 | 10,640 |
| Drydocking | **–** | **–** | **–** | – | – | – |
| Off-hire | **–** | **–** | **–** | – | – | – |
| Revenue days | **260** | **11,190** | **11,450** | 110 | 10,530 | 10,640 |

## Direct Costs

The Group's dry bulk fleet incurred US$593.0 million (2009: US$439.5 million) or 87.6% (2009: 87.3%) of total segment direct costs.

### Breakdown of Direct Costs

| US$ Million | 2010 | 2009 | Change |
|---|---|---|---|
| Charter-hire expenses for vessels | **471.7** | 337.9 | +40% |
| Vessel operating costs | **54.0** | 45.5 | +19% |
| Depreciation of vessels | **39.9** | 30.6 | +30% |
| Direct overheads | **27.4** | 25.5 | +7% |
| Total | **593.0** | 439.5 | +35% |


*A traditional ship naming ceremony in Japan*

- Owned vessel operating costs include costs related to crew, spares, lubricating oil and insurance.
- Increases in owned vessel operating costs and depreciation is mainly due to the increase in the average number of owned and finance leased vessels from 31 to 37.
- 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 increase was represented by charter-hire expenses for vessels under operating leases which increased to US$471.7 million (2009: US$337.9 million), reflecting:

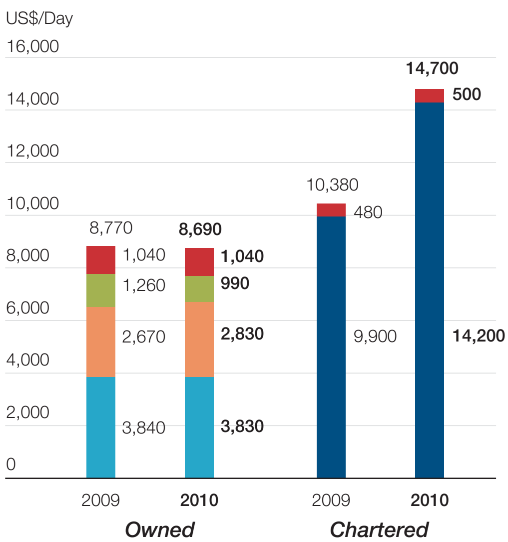
a) a 31.5% increase in the average daily charter rate of vessels chartered by the Group under operating leases; and

b) a 6.4% rise in the average number of vessel days chartered by the Group under operating leases.

Blended daily vessel operating costs for handysize increased 23.5% from last year mainly due to higher charter-hire costs of vessels sourced from the market. The equivalent daily cost for handymax increased 19.7% from last year for the same reason. Blended daily vessel operating costs include direct overheads and can be analysed between owned and chartered vessels as follows:

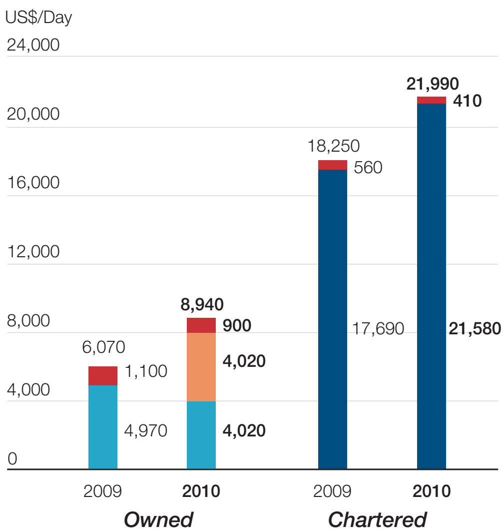
### Handysize

***Blended US$11,970** (2009: US$9,690)*




### Handymax

***Blended US$21,690** (2009: US$18,120)*




Opex | Depreciation | Finance cost | Charter-hire | Direct overhead

## PB Energy & Infrastructure Services Segment

The Group's PB Energy & Infrastructure Services segment continues to seek growth opportunities in offshore and project supply, harbour towage and ship survey and inspection services.

| US$ Million | 2010 | 2009 | Change |
|---|---|---|---|
| PB Towage (offshore and project supply and harbour towage services) | **1.0** | 1.0 | - |
| PacMarine Services (ship survey and inspection services) | **1.0** | 0.9 | +11% |
| Fujairah Bulk Shipping (rock aggregate production and transportation) | **2.9** | 6.3 | -54% |
| **Segment net profit** | **4.9** | 8.2 | -40% |
| Segment net assets | **229.4** | 214.0 | +7% |
| Return on net assets | **2%** | 4% | -2% |

PB Towage's results were affected by the reduction in liner port calls in the harbour towage sector compounded by fewer offshore and project supply jobs.

PacMarine Services' results increased mainly due to the growth in the number of ship inspections.

Fujairah Bulk Shipping is a joint venture with the Government of Fujairah in the Middle East. Results were affected by the reduced volume of rock required by the reclamation project compared to 2009 and continuing difficult market conditions. In early 2011, management of Fujairah Bulk Shipping decided to scale-down the operation upon completion of its land reclamation project. As a result, the Group has made an impairment on part of its investment in Fujairah Bulk Shipping amounting to US$19.1 million. The impairment has been excluded from the segment results as it did not relate to the underlying operations of Fujairah Bulk Shipping.

## PB RoRo Segment

The Group's first RoRo vessel began generating revenue from mid-September 2009. The second and third RoRo vessels were delivered to the Group in the fourth quarter of 2010 and have since been deployed in the new Nafta Gulf Bridge RoRo service between US Gulf and Mexico.

| US$ Million | 2010 | 2009 | Change |
|---|---|---|---|
| Segment revenue | **14.6** | 3.3 | +342% |
| Segment operating costs | **(15.7)** | (3.2) | +391% |
| **Segment net (loss)/profit** | **(1.1)** | 0.1 | |
| Segment net assets | **384.4** | 192.1 | +100% |
| Return on net assets | **0%** | 0% | -0% |

## Other Income Statement Items

### Other Income

Movements in the fair value and receipts from forward freight agreements amounted to US$29.8 million (2009: US$55.0 million).

During the year, the Group sold 26% of its shareholdings in Green Dragon Gas Limited realising a gain of US$16.0 million.

### Other Expenses

Movements in the fair value and payments for forward freight agreements amounted to US$36.6 million (2009: US$80.7 million). Taking into account the movements in fair value and receipts of US$29.8 million included in other income above, the net movement in the fair value and payments for forward freight agreements resulted in an expense of US$6.8 million (2009: US$25.7 million).

The Group has made an impairment on part of its investment in Fujairah Bulk Shipping amounting to US$19.1 million due to the scaling down of its operations.

### General and Administrative Expenses

The Group's total administrative expenses of US$68.3 million (2009: US$64.8 million) were similar to last year after excluding unrealised expenses of US$4.9 million (2009: nil) arising mainly from the revaluation of Euros held by treasury. Total administrative expenses comprised direct overheads of US$55.3 million (2009: US$52.5 million) and general and administrative expenses of US$13.0 million (2009: US$12.3 million).

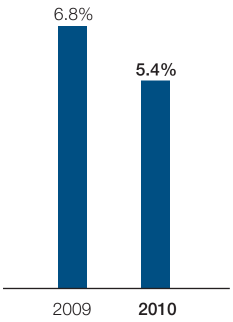
### Share of Profits Less Losses of Jointly Controlled Entities

This represents the Group's share of losses of US$0.5 million (2009: US$2.5 million) in Nanjing Longtan Tianyu Terminal Co. Ltd. In addition, there are jointly controlled entities included in the segment results for PB Energy & Infrastructure Services and PB RoRo.

### Finance Income

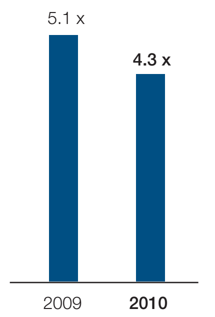
Finance income of US$19.1 million (2009: US$11.4 million) represents primarily US$18.1 million (2009: US$10.3 million) of interest income.

***Administrative Expenses as a Percentage of Revenue***




*Proud crew and loyal colleagues*

### Group Interest Coverage




## Financing

Finance costs of US$50.3 million (2009: US$38.8 million) can be analysed as follows:

- The increase of US$3.0 million in interest on bank borrowings was primarily due to the increase in the average bank borrowings outstanding to US$374.2 million (2009: US$333.5 million). Bank borrowings are subject to floating interest rates but the Group manages these exposures by way of interest rate swap contracts.

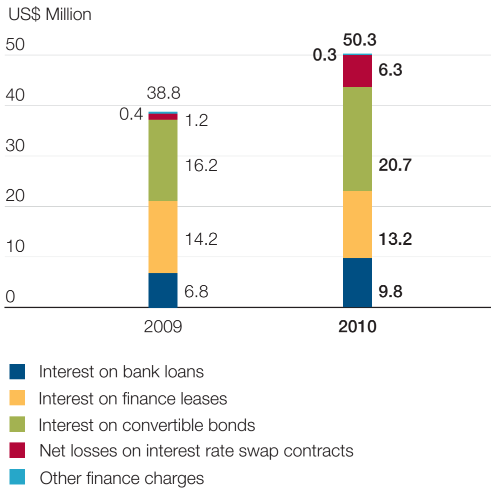
- Finance charges of US$13.2 million (2009: US$14.2 million) represents interest payments on the Group's finance leased vessels. Aggregate current and long term finance lease liabilities at 31 December 2010 were US$184.5 million. The fixed equal quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities on 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, which were redeemable by bondholders in February 2011. During the year, the Group repurchased convertible bonds with an aggregate face value of US$208.8 million, in addition to the repurchases made in 2008 and 2009 with face value of US$65.7 million and US$10.3 million respectively. After these transactions, convertible bonds with a face value of US$105.2 million remained outstanding at 31 December 2010. As at the reporting date, certain bondholders have exercised the put option as stipulated in the convertible bonds agreement. Furthermore, the Group has exercised the option to redeem the remaining convertible bonds outstanding in whole at par value. As a result, all of the 2013 convertible bonds will have been redeemed in full in the first quarter of 2011.

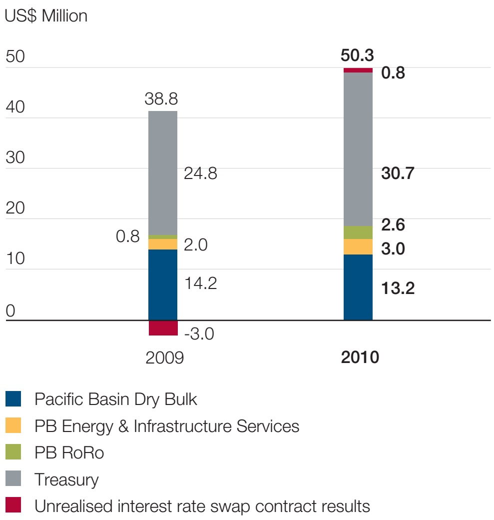
- In April 2010, the Group issued US$230 million, 1.75% per annum coupon, guaranteed convertible bonds maturing in 2016. Part of the proceeds have been used to repurchase the convertible bonds maturing in 2013. The new bonds are convertible into ordinary shares of the Company at a current conversion price of HK$7.79. However, between 12 January 2011 and 11 January 2014, conversion can only take place if the closing price of the Company's shares is at least at a 20% premium for five consecutive trading days to the conversion price then in effect.

- The increase of US$4.5 million in interest on convertible bonds was due to the higher outstanding amount of convertible bonds during the year.

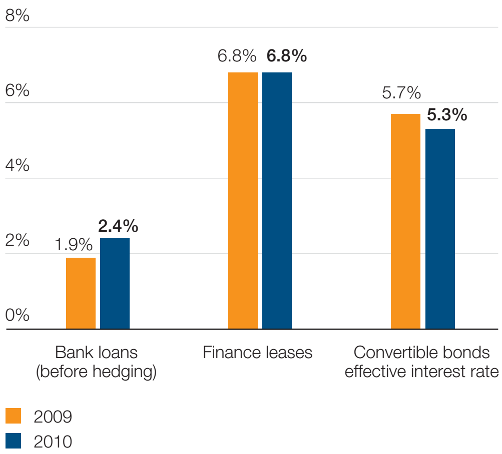
### Finance Costs By Source




### Finance Costs By Segment



### *Average Interest Rates on Borrowings*



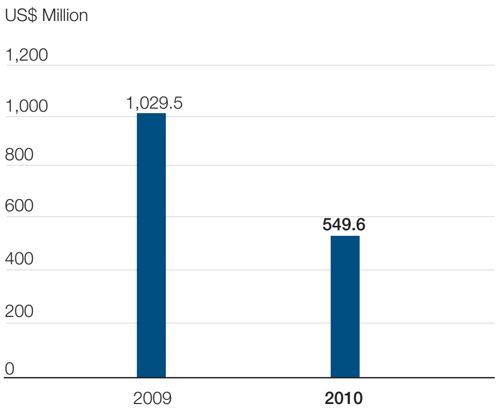

## Tax

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 deposits of US$703.5 million, principally denominated in US dollar, and unutilised bank borrowing facilities of US$302.1 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.

### *Net Working Capital*




*'Diamond Harbour' at Lyttelton, New Zealand*

## Financial Instruments

The Group is exposed to fluctuations in freight rates, bunker prices, interest rates and currency exchange rates. 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 2010, 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 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.

During the year ended 31 December 2010, the Group recognised net derivative expenses of US$15.3 million, as follows:

| US$ Million | Realised | Unrealised | 2010 | 2009 |
|---|---|---|---|---|
| **Income** | | | | |
| Forward freight agreements | 20.6 | 9.2 | 29.8 | 55.0 |
| Bunker swap contracts | 10.4 | 2.5 | 12.9 | 62.6 |
| Interest rate swap contracts | – | – | – | 3.0 |
| | 31.0 | 11.7 | 42.7 | 120.6 |
| **Expenses** | | | | |
| Forward freight agreements | (24.0) | (12.6) | (36.6) | (80.7) |
| Bunker swap contracts | (4.4) | (10.7) | (15.1) | (16.9) |
| Interest rate swap contracts | (5.5) | (0.8) | (6.3) | (4.2) |
| | (33.9) | (24.1) | (58.0) | (101.8) |
| **Net** | | | | |
| Forward freight agreements | (3.4) | (3.4) | (6.8) | (25.7) |
| Bunker swap contracts | 6.0 | (8.2) | (2.2) | 45.7 |
| Interest rate swap contracts | (5.5) | (0.8) | (6.3) | (1.2) |
| | (2.9) | (12.4) | (15.3) | 18.8 |

**Presentation in the Segment Information:**

*Revenue*
*Bunkers & port disbursements*
*Direct costs*
*Other income*
*Other expenses*
*Finance costs*

*Profit for the year*

**Presentation in the Financial Statements:**

*Revenue*
*Bunkers & port disbursements*
*Direct costs*
*Other income*
*Other expenses*
*Finance costs*

*Profit for the year*

- Cash settlement of contracts completed in the year
- Included in segment results

- Contracts to be settled in future years
- Accounting reversal of earlier year contracts now completed
- Not part of segment results

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 future periods. In 2010 this created a net unrealised non-cash expense of US$12.4 million. The cash flows of these contracts will occur in future reporting periods.

## Balance Sheet Segment Analysis

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

| US$ Million | Total | PB Dry Bulk | PB EIS | PB RoRo | All other segments | Treasury | Unallocated Others |
|---|---|---|---|---|---|---|---|
| **Total assets** | 2,555.4 | 978.5 | 291.4 | 443.7 | 153.6 | 679.9 | 8.3 |
| Includes: | | | | | | | |
| Property, plant and equipment | 1,518.6 | 828.7 | 223.6 | 429.1 | 37.2 | – | – |
| Interests in jointly controlled entities | 56.1 | – | 26.4 | 0.6 | 29.6 | – | (0.5) |
| Investments in associates | 4.1 | – | 3.4 | 0.7 | – | – | – |

- PB Dry Bulk total assets (978.5):
  - Vessels delivered & under construction
  - Goodwill
- PB RoRo total assets (443.7):
  - Vessels delivered & under construction
- Treasury total assets (679.9):
  - Group unallocated cash
- Unallocated Others total assets (8.3):
  - Derivative assets
- All other segments total assets (153.6):
  - Includes shares in Green Dragon Gas
- All other segments property, plant and equipment (37.2):
  - Post Panamax
  - Properties
- All other segments interests in jointly controlled entities (29.6):
  - Longtan Tianyu Terminal
- PB EIS investments in associates (3.4):
  - Gold River Marine Terminal, Canada
- PB EIS interests in jointly controlled entities (26.4):
  - Bunker tanker, N.Z.
  - Fujairah Bulk Shipping

| US$ Million | Total | PB Dry Bulk | PB EIS | PB RoRo | All other segments | Treasury | Unallocated Others |
|---|---|---|---|---|---|---|---|
| **Total liabilities** | 1,010.5 | 288.4 | 62.0 | 59.2 | 6.4 | 575.8 | 18.7 |
| Includes: | | | | | | | |
| Long term borrowings | 859.5 | 184.5 | 45.0 | 54.7 | – | 575.3 | – |

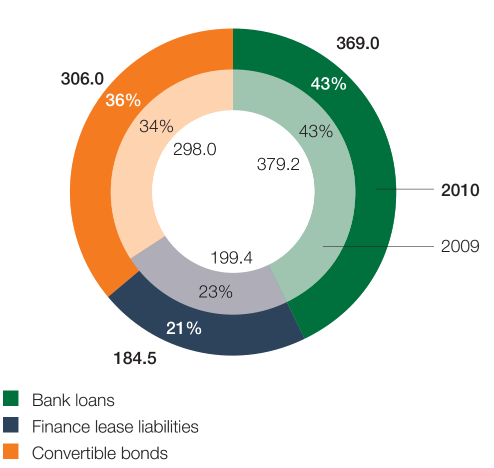
- Unallocated Others total liabilities (18.7):
  - Derivative liabilities
- PB Dry Bulk long term borrowings (184.5):
  - Finance lease liabilities
- PB EIS long term borrowings (45.0):
  - Specific bank loans for tugs and barges
- PB RoRo long term borrowings (54.7):
  - Specific bank loans for RoRos
- Treasury long term borrowings (575.3):
  - Group general facilities includes:
    - Convertible bonds
    - Loans secured on dry bulk ships for future expansion

*Note: PB Dry Bulk : Pacific Basin Dry Bulk*
*PB EIS : PB Energy & Infrastructure Services*

## Borrowings

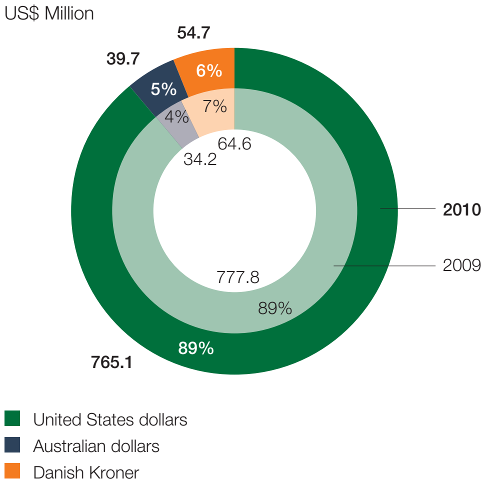
### *By Source*

US$ Million




### *By Currency*

US$ Million




The indebtedness of the Group amounted to US$859.5 million (2009: US$876.6 million).

- Bank borrowings (net of deferred loan arrangement fees) decreased as a result of repayments during the year. The Group's bank borrowings were secured by mortgages over 32 vessels with a total net book value of US$493.6 million and an assignment of earnings and insurances in respect of these vessels.

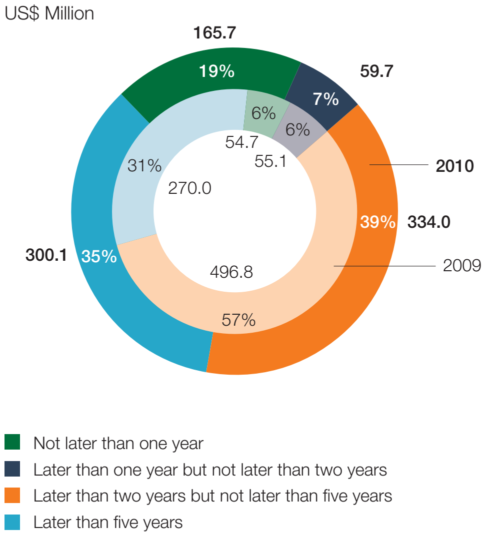
- Bank borrowings are in the functional currency of the business segment to which they relate.

- Finance lease liabilities decreased following repayments during the year.

- The debt component of the Group's convertible bonds increased primarily as a result of the issuance of the new convertible bonds, partially offset by the repurchase and cancellation of a portion of the old convertible bonds during the year. As at the reporting date, the Group has received notices from certain holders of the 2013 convertible bonds to exercise the put option as stipulated in the 2013 convertible bonds agreement. Furthermore, the Group has exercised the option to redeem the remaining 2013 convertible bonds outstanding in whole at par value, resulting in the bonds being fully redeemed in the first quarter of 2011.

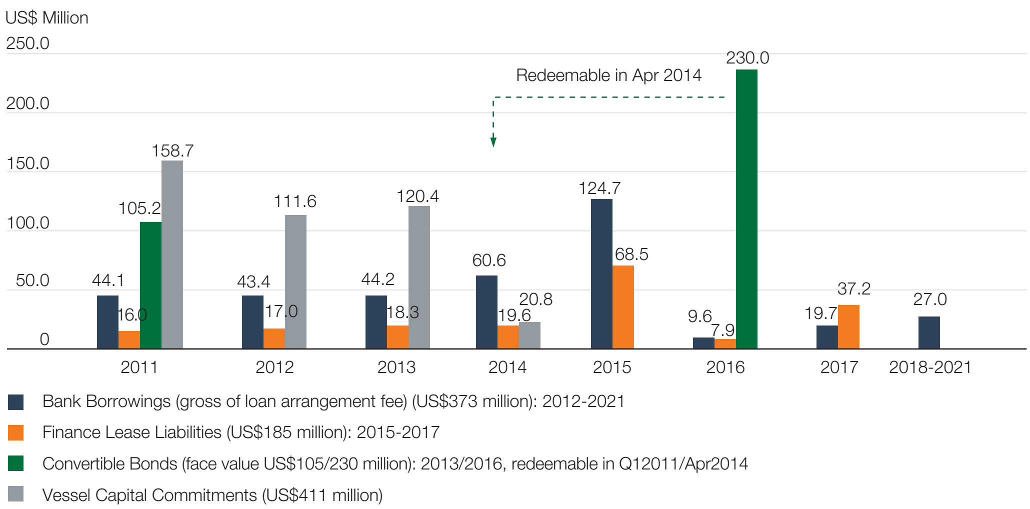
### *By Maturity*

US$ Million



In addition to the cash generated from the Group's operations, existing cash, and additional long term borrowings that may be arranged when required, the Group had unutilised bank borrowing facilities of US$302.1 million available to finance the Group's existing vessel and other capital commitments, along with other potential vessel acquisitions.

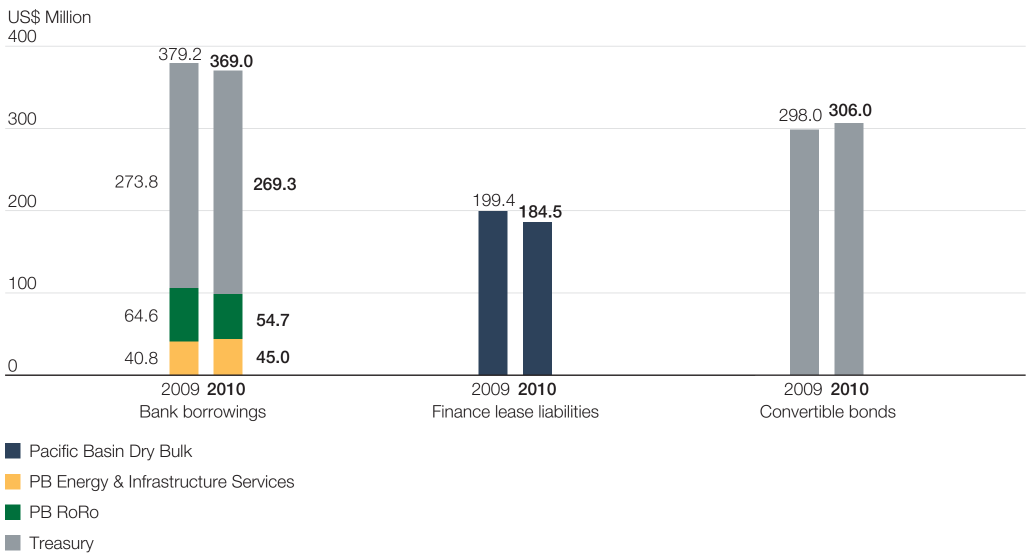
### *Repayments and Vessel Capital Commitments Schedule*




Note: *Of the remainder of the 2013 convertible bonds with a face value of US$105.2 million, US$80.9 million has already been redeemed and cancelled on 1 February 2011 while the remaining US$24.3 million will have been redeemed and cancelled on or around 4 March 2011.*

The Group, through its treasury function, arranges financing 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.

### *By Source and Segment*



## Cash and Deposits

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 | 2010 | 2009 | Change |
|---|---|---|---|
| Restricted bank deposits – non-current assets | 10.3 | 40.1 | |
| Restricted bank deposits – current assets | 3.4 | 16.5 | |
| Cash and deposits | 689.7 | 1,049.1 | |
| Total cash and deposits | 703.4 | 1,105.7 | -36% |
| Current portion of long term borrowings | (165.7) | (54.7) | |
| Long term borrowings | (693.8) | (821.9) | |
| Total borrowings | (859.5) | (876.6) | -2% |
| Net (borrowings)/cash | (156.0) | 229.1 | |
| Net (borrowings)/cash to book value of property, plant and equipment | (10.2)% | 22.7% | |
| Net (borrowings)/cash to shareholders' equity | (10.1)% | 15.7% | |

Cash and deposits decreased as a result of payments for the purchase of vessels.

## Lease Commitments

Vessel operating lease commitments stood at US$362.0 million (2009: US$424.8 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 lower average contracted daily charter rates.

The Group has commitments of 24,040 vessel days under handysize finance leases and 26,300 vessel 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 of the lease term, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements.

### *Handysize and Handymax Vessel Lease Commitments*

| | Handysize Operating leases | | Handysize Finance leases | | Handymax Operating leases | |
|---|---|---|---|---|---|---|
| Year | Average daily rate (US$) | Vessel days | Average daily rate (US$) | Vessel days | Average daily rate (US$) | Vessel days |
| 2011 | 11,570 | 5,390 | 5,920 | 4,760 | 16,630 | 3,050 |
| 2012 | 11,480 | 4,030 | 5,960 | 4,750 | 13,530 | 400 |
| 2013 | 11,650 | 2,610 | 5,950 | 4,750 | 13,830 | 370 |
| 2014 | 12,020 | 2,190 | 5,940 | 4,750 | 13,830 | 370 |
| 2015 | 11,930 | 2,190 | 5,910 | 2,590 | 13,830 | 370 |
| 2016 | 11,280 | 1,800 | 5,970 | 1,830 | 13,830 | 370 |
| 2017 | 11,000 | 1,120 | 5,840 | 610 | 13,830 | 370 |
| 2018 | 11,000 | 1,090 | – | – | 13,830 | 150 |
| 2019 | 13,000 | 370 | – | – | – | – |
| 2020 | 13,000 | 60 | – | – | – | – |
| Total | | 20,850 | | 24,040 | | 5,450 |

At 31 December 2010, a provision against the handymax time charter contracts expiring in 2011 of US$2.0 million remains. It has been reflected in the above annual average daily charter rates.

Certain lease agreements provide the Group with options to purchase the related vessels at predetermined times and prices during the lease periods. The average price 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 2010 Finance lease | Number of vessels at 31 December 2010 Operating lease | Average age of vessels (years) | Average purchase option exercise price (US$ Million) |
|---|---|---|---|---|---|
| 2011 | Handysize | 13 | 7 | 8 | 17.0 |
| | Handymax | – | 1 | 6 | 15.2 |
| | Tug | – | 1 | 2 | 2.8 |
| 2012 | Tug & barge | – | 2 | 5 | 2.0 |
| 2016 | Handysize | – | 2 | 5 | 38.8 |
| | Handymax | – | 1 | 5 | 30.0 |
| | Post Panamax | – | 1 | 5 | 66.8 |
| 2017 | Handysize | – | 1 | 5 | 32.6 |
| 2020 | Handysize | – | 1 | 7 | 36.2 |
| 2021 | Handysize | – | 1 | 7 | 36.5 |
| Total | | 13 | 18 | | |

*Note: Includes certain purchase options priced in currencies other than US dollars.*

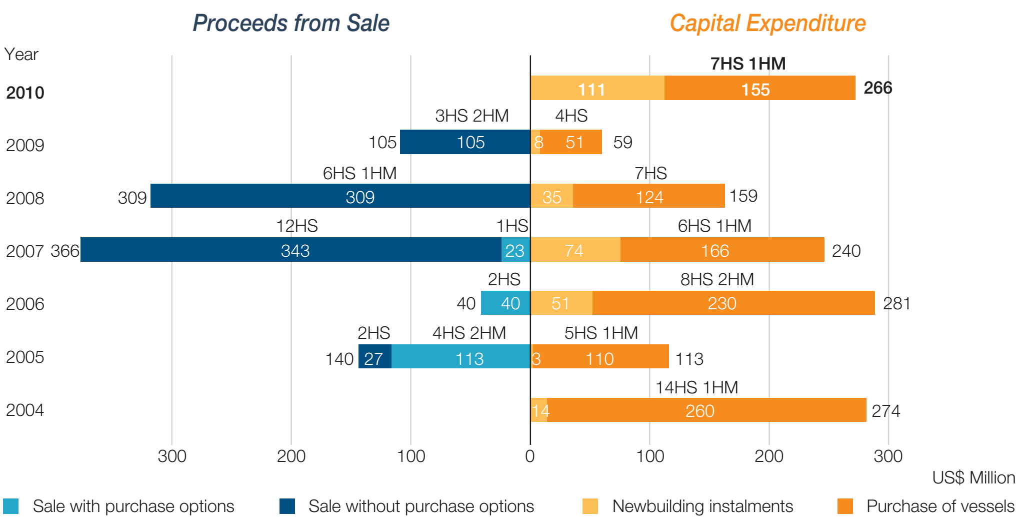
During 2010, the Group exercised a purchase option to purchase one handysize vessel which was delivered to the Group during the year. Subsequent to the year end, the Group exercised purchase options to purchase three more handysize vessels which will be delivered to the Group in the first half of 2011.

*'Koombana Bay' loading logs in Tauranga, New Zealand*

## Capital Expenditure and Property, Plant and Equipment

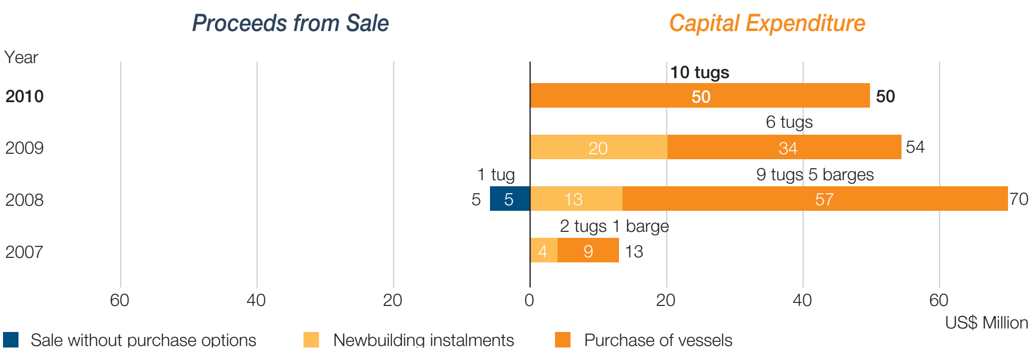
During the year ended 31 December 2010, capital expenditure amounted to US$523.5 million resulting from the addition of seven handysize vessels, one handymax vessel, 10 tugs and two RoRo vessels as well as instalment payments on 16 vessels, including handysize, handymax, post panamax and RoRo vessels. Cash used for the purchase of vessels and proceeds from the sale of vessels are illustrated below.

### *Dry Bulk Vessels*

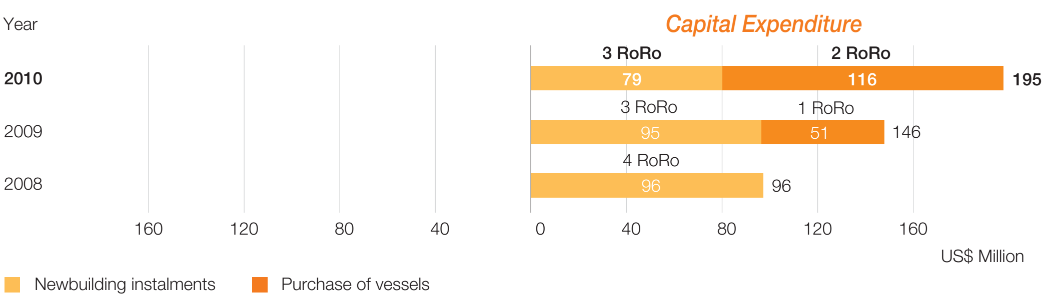



Note: *In 2005, the Group sold and chartered back 17 handysize vessels for US$318.0 million. These were classified as finance lease and remained on the balance sheet as property, plant and equipment.*

### *Tugs & Barges*




### *RoRo Vessels*



At 31 December 2010, the Group had property, plant and equipment with net book value of US$1,518.6 million, of which US$1,200.2 million related to 39 delivered handysize vessels, two handymax vessels, 37 tugs and barges and three RoRo vessels. Handysize vessels continued to dominate the Group's assets with an average net book value of US$17.9 million and an average insurable value of US$27.3 million. Tugs, barges and RoRo vessels are denominated in their functional currencies such as Australian dollar and Euro. As such, their United States dollar carrying values and commitments are subject to exchange rate fluctuation.

## Vessel Commitments

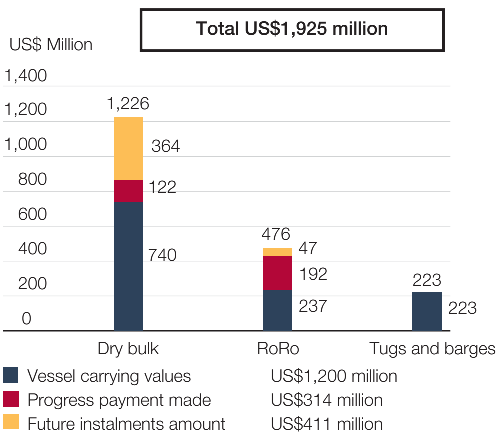
At 31 December 2010, the Group had non-cancellable vessel commitments of US$321.4 million and authorised commitments of US$90.1 million. The vessels are for delivery to the Group between February 2011 and January 2014.

| US$ Million | Number | 2011 | 2012 | 2013 | 2014 | Total |
|---|---|---|---|---|---|---|
| Handysize vessels | 7 | 22.9 | 79.1 | 19.1 | – | 121.1 |
| Handymax vessels | 5 | 3.2 | 32.5 | 95.3 | – | 131.0 |
| Post panamax vessel | 1 | 22.1 | – | – | – | 22.1 |
| RoRo vessels | 3 | 47.2 | – | – | – | 47.2 |
| Commitments at 31 December 2010 | 16 | 95.4 | 111.6 | 114.4 | – | 321.4 |
| Authorised commitments | | | | | | |
| Handysize vessels | 4 | 63.3 | – | 6.0 | 20.8 | 90.1 |
| | 20 | 158.7 | 111.6 | 120.4 | 20.8 | 411.5 |

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

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

### *A Combined View of Vessel Carrying Values and Commitments*




## Staff

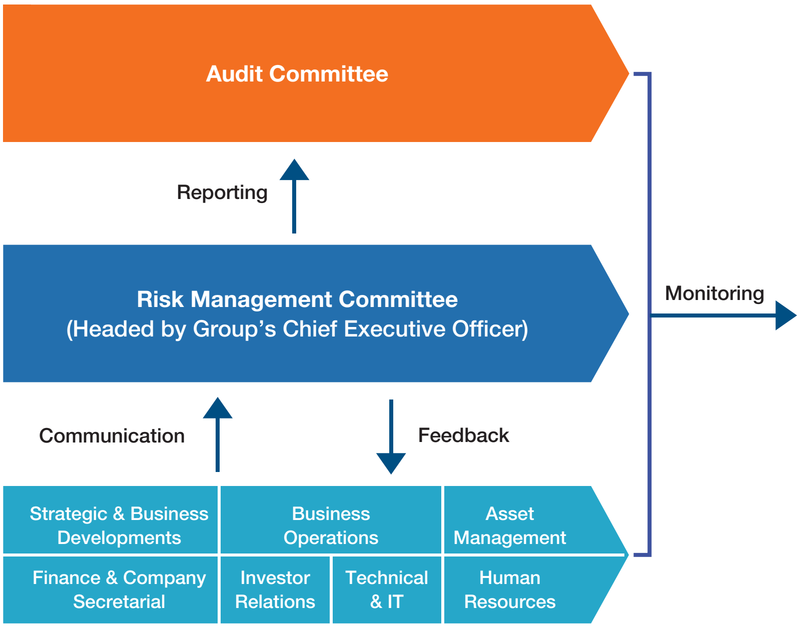
- At 31 December 2010, the Group employed a total of 375 full time, shore based staff (2009: 356).
- The Group incurred total staff costs (included in direct overheads and general and administrative expenses as described earlier) of approximately US$41.5 million (2009: US$43.8 million), representing 3.3% of the Group's revenue (2009: 4.6%). 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 individuals' 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 shares and share options. More details of the LTIS can be found in the "Report of the Directors" of this Annual Report.
- 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.

# Risk Management


*'Esperance Bay' at Bluff, New Zealand*

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.

## Our risk monitoring structure




## Our risks

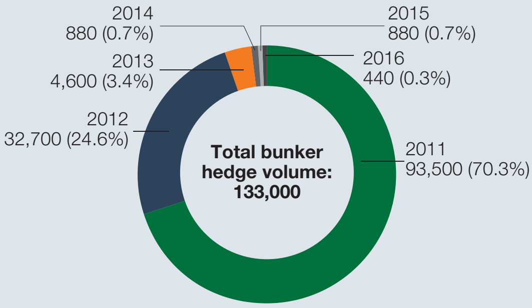
**Market Risks**
1. Earnings Volatility
2. Vessel Value Volatility
3. Bunker Price Volatility
4. Interest Rate Volatility
5. Foreign Exchange Volatility

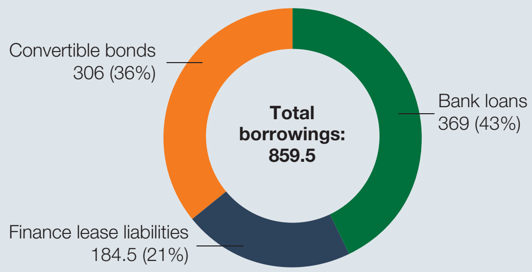
**Financial Risks**
1. Use of Forward Freight Agreements ("FFAs")
2. Counterparty Risk
3. Liquidity Risk

**Operational Risks**
1. Insufficiently Experienced Staff
2. Insufficient Insurance
3. Critical Software or System Failure

## Market Risks

<table>
<tr><th>Risk Area</th><th>Context</th><th>Mitigation</th></tr>
<tr><td>1. Earnings Volatility</td><td>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.</td><td>Pacific Basin Dry Bulk<br>Through long term cargo contracts, we reduce volatility in our achieved freight rates. Cargo contracts typically have a term of 12 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 long term cargo contracts with a variety of international customers who operate in a wide range of industries across the world.<br><br>The Group complements its portfolio of cargo 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.<br><br>PB Energy & Infrastructure Services<br>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.<br><br>PB RoRo<br>The Group's RoRo business seeks to further diversify the Group's earnings through exposure to the European and US Gulf short sea trailer market, which is engaged in the carriage of industrial and consumer products.</td></tr>
<tr><td>2. Vessel Value Volatility</td><td>The value of dry bulk vessels may vary significantly. 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.</td><td>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.<br><br>Newbuilding transactions<br>The Group contracts with leading, reputable and financially viable newbuilding shipyards or with other yards whose performance under the newbuilding contracts is guaranteed by a first-class bank or a financially trustable related company acceptable to the Group.<br><br>
<table>
<tr><th>Newbuildings on Order</th><th>Dry Bulk</th><th>RoRo</th></tr>
<tr><td>At 25 February 2011</td><td>China 12<br>Japan 1</td><td>Denmark 3</td></tr>
</table>
<br>Shipbuilder's country of origin:<br>China Denmark Japan</td></tr>
</table>

| Risk Area | Context | Mitigation |
|---|---|---|
| | | **Sale and charter back transactions**<br>The Group considers the possible sale and charter back of vessels on terms which may also include options for the Group to repurchase the vessels at predetermined times and prices during the charter periods. Such sale and charter back 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.<br><br>**Second hand vessel transactions**<br>In the case of second hand vessel transactions, the Group considers closely 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. | To mitigate the risk arising from future oil price fluctuations between the date a cargo contract is signed and the date the cargo is carried, the Group hedges its expected future bunker requirement for each long term cargo contract. This is achieved by entering into bunker swap contracts or bunker forward contracts at the time of the conclusion of each long term cargo contract in the Pacific Basin Dry Bulk segment.<br><br>***Bunker swap contracts' maturity by percentage***<br>Metric Tonnes<br> |

| Risk Area | Context | Mitigation |
|---|---|---|
| 4. **Interest Rate Volatility** | The Group's interest rate volatility risk is associated with its interest-bearing bank loans. | The Group aims to manage centrally its exposure to interest rate movements on its borrowings and minimise interest costs. Risk associated with interest rate volatility is mitigated through a 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.<br><br>***Sources of borrowings by percentage***<br>US$ Million<br><br><br>The Group enters into interest rate swap contracts mainly with its lending banks with terms that typically match the profile and tenor of the underlying 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 Group's operating companies 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. | 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.<br><br>**Pacific Basin Dry Bulk**<br>Most of the dry bulk newbuilding vessels are paid for in United States Dollar, which is the functional currency of the operating unit and some are paid for in Japanese Yen, which is hedged according to the Group's treasury policy.<br><br>**PB Energy & Infrastructure Services**<br>Most of our newbuilding towage vessels were paid for in United States Dollar, which is different from the functional currency of the operating unit and is hedged according to the Group's treasury policy.<br><br>**PB RoRo**<br>Most of the RoRo newbuilding vessels are paid for in Euro, which is the functional currency of the operating unit, therefore hedging of currency is considered unnecessary. |

## Financial Risks

| Risk Area | Context | Mitigation |
|---|---|---|
| **1. Use of Forward Freight Agreements ("FFAs")** | The Group enters into FFAs on a limited basis primarily as a method to hedge part of its forward freight exposure in the Pacific Basin Dry Bulk segment, 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. | 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 mainly relates to its long term cargo contracts, outward period charters and derivative contracts. The Group's losses from uncollected freight and charter-hire receivables amounted to 0.2% (2009: 0.5%) of profit attributable to shareholders in 2010. | **Pacific Basin Dry Bulk**<br>*Trade counterparties*<br>The Group has the following measures to mitigate this risk:<br>■ Securing long term contracts with a diversified customer base, including large agricultural, industrial and mining companies or companies with a successful track record, prevents reliance on a single source of income. Our top 10 customers account for around 25% of our total dry bulk revenue.<br>■ Following industry practice, 95% to 100% of contracted freight is payable upon completion of loading, with the balance payable after completion of discharge.<br>■ 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.<br><br>*FFA counterparties*<br>■ Trading through a clearing house, a third party, to settle trading accounts and maintain margin monies.<br><br>*Bunker swap contract counterparties*<br>■ Trading mainly with creditworthy oil companies and trading houses which have sound Standard & Poor's credit ratings.<br><br>**PB Energy & Infrastructure Services and PB RoRo**<br>In-house and external advice are sought to assess the creditworthiness of customers to ensure customers with an appropriate payment history. |

| Risk Area | Context | Mitigation |
|---|---|---|
| 3. **Liquidity Risk** | Liquidity risk relates to the availability of bank borrowing facilities for funding the Group's activities. Liquidity risk increases when the credit markets tighten. | The Group manages liquidity risk in line with the Group's treasury policy approved by the Board to ensure 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.<br><br>The Group's cash portfolio comprises mainly deposits with financial institutions with sound credit ratings with tenors ranging from overnight to 12 months depending on our cash needs.<br><br>The Group also invests some of its surplus cash in financial products with financial institutions with sound credit ratings according to the requirements in the Group's treasury policy in order to enhance the yield of the Group's cash resources. |

## Operational Risks

| Risk Area | Context | Mitigation |
| --- | --- | --- |
| 1. Insufficiently Experienced Staff | The Group is heavily reliant on the quality of its sea and shore based staff to minimise the operational risk in relation to vessel grounding, collision, pollution or violation of Group and statutory regulations. Such events could result in financial losses in the form of 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. | 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 auditor, Lloyd's Register of Shipping.<br><br>In order to maintain a stable and competitive team of sea and shore based staff, Pacific Basin has implemented the following measures:<br><br>■ Sea staff are recruited from more than one country without placing undue reliance on one manning source.<br>■ Continued investment 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.<br>■ 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. |

*Visiting bankers and auditors are introduced to a handysize log/bulk carrier*

| Risk Area | Context | Mitigation |
|---|---|---|
| 2. **Insufficient Insurance** | The inherent risks incidental to the operation of vessels include collision, sinking, piracy, other marine disasters, environmental pollution, cargo and property damage and loss and business interruption. | To minimise the likely financial consequences, the Group centrally enters into and manages a range of insurance products, including hull and machinery, war risk, P&I cover, freight demurrage and defense, bunker insurance, charterers liability, purchasers' interest, charterers' advance loss of profit, ship owner liability, cargo liability and property risk cover. We insure to the highest standards in the industry.<br><br>Insurances are only arranged with reputable underwriters. We use a wide range of 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 insurance strategies, policies and 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 continued and 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. | The maintenance and protection of software and systems, and the development and implementation of policies, are carried out by the Group's IT department and governed by the Group's IT Governance Committee headed by the Chief Financial Officer of the Company. 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.<br><br>The Group manages this risk by:<br>■ Regular meetings of the IT Governance Committee to oversee the Group's IT policies and procedures to ensure that organisation objectives are met.<br>■ Developing and maintaining certain preventive or contingency measures to minimise the risk of system failures and to deal with system breakdowns according to the Group's IT policies.<br>■ Providing external technical training to our IT staff.<br>■ Providing internal technical training to the general staff members. |

# Corporate Citizenship

*The PB Sea Tow team competing in an outrigger race on Lake Pupuke, Auckland, New Zealand*

Our ambition at Pacific Basin is to grow and improve our business, strengthen our market position, and secure our place as the dry bulk operator of choice for our customers, investors, employees and stakeholders at large. 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 corporate citizenship through our pursuit of excellence in the areas of Environment, Workplace and Community.

## Environment

At Pacific Basin, we challenge ourselves to do the best we reasonably can to minimise our impact on the environment and ensure the environmental sustainability of our Company well into the future. We therefore operate our vessels in strict adherence to applicable environmental legislation, exceeding regulatory requirements where practically possible.

We own modern fleets 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 operate. Even so, with a focus on our cornerstone dry bulk fleet, we endeavour to further improve – and continually improve – our vessels' environmental performance through a range of efforts including:

- monitoring and analysis of our ships' outputs such as carbon dioxide ($CO_2$) emissions, fuel sulphur (SOx) content, and the discharge of operational and household wastes;
- review and adjustment of our operational practices to reduce such output;
- adoption of technical measures to reduce such output;
- monitoring and reviewing industry developments to minimise the environmental impact from ships; and
- continual renewal of our fleet for environmental and economic reasons, with a focus on the latest fuel-efficient machinery and hull designs.

The most topical and perhaps also the most challenging shipping outputs to reduce are the greenhouse gas emissions (including $CO_2$) released through the combustion of fossil fuels which, for the foreseeable future, are the only realistic energy source for the primary propulsion of large dry bulk ships. We are therefore particularly interested in pursuing initiatives and technologies designed to increase our vessels' fuel efficiency thus reducing volume of fuel we burn and, in the process, generating increasingly significant cost savings.

Despite the current greenhouse gas focus, we remain mindful of the need to reduce our other emissions and discharges where we still can, and those efforts are not limited to our business at sea. Environmental protection is pursued also ashore through a range of practices that reduce our consumption of electricity, water and materials and we recycle our waste where possible.

Whilst some of our initiatives might make a relatively modest positive impact on the environment, we believe that every effort counts, and most of our environmental efforts have also resulted in significant cost savings.

## Key Performance Indicators Summary

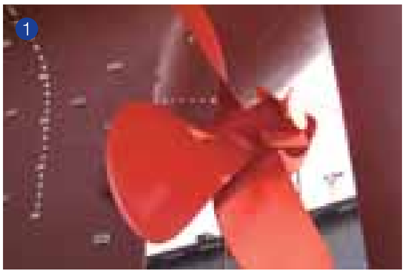
| KPI | 2008 | 2009 | **2010** | Target 2011 |
|---|---|---|---|---|
| $CO_2$ Index (grams of $CO_2$ per tonne-mile) | 9.07 | 8.94 | **9.37** | 9.37 |
| Environmental Pollution Incidents # | 2 | 2 | **0** | 0 |
| Zero Deficiency Success Rate in External Inspections | 71% | 76% | **77%** | over 77% |
| Regulatory Deficiency Rate in External Inspections | 0.88 | 0.65 | **0.52** | 0.52 |
| Lost Time Injury Incidents (8 or more hours lost) | 10 | 11 | **12** | Minimise |
| Occupational Health & Safety<br>Lost Time Injury Frequency (LTIF) | 1.37 | 1.56 | **1.54** | Minimise |

# *Pollution incidents in 2008 included a minor spill in Singapore of 400 litres of heavy fuel oil due to actions of the supplier, and a spill of 5-30 litres of marine diesel oil spilled whilst bunkering in Auckland due to an air lock malfunction.*

We have been developing a formal programme of tracking, analysing and mitigating our ships' environmental impacts over the past six years and, since early 2008, we have summarised through our Annual and Interim Reports our growing commitment to environmental stewardship and our emissions reduction initiatives. Last year, we published our climate change strategies and our 2009 carbon emissions via the Carbon Disclosure Project (www.cdproject.net) and, in the interest of greater transparency, we will be accounting more fully for our environmental performance with the production of a detailed Environmental Report to be published later this year.

*PB Towage deckhands attending to a barge loaded with aggregate at Musansean Rock, Oman*

*Departmental Christmas dinner offers an opportunity for fun and team building*





1 we fit boss cap fins to all our ships' propellers to reduce shaft torque and improve fuel efficiency

2 we apply low-friction anti-fouling paints to our ships' hulls as far up as the summer load line to reduce drag

3 we adopt fuel-efficient voyage planning, speed reduction programming and other operational measures to achieve increased fuel savings

4 we fit and use garbage compactors on our ships to facilitate easy storage and handling of all our domestic operational garbage for disposal at shore-side facilities





5 we employed the Computerised Analysis of Ship Performance (CASPER) system to verify the effectiveness of our in-house systems for monitoring hull performance over time allowing us to maximise fuel efficiency

6 we record Environmental Key Performance Indicators (KPIs) in our monthly Environmental Management System (EMS) Report allowing for effective performance tracking

7 we monitor and engage in regulatory debate via various industry bodies, now particularly regarding climate change in preparation for eventual carbon emissions abatement measures to be imposed on international shipping




8 we support marine-related environmental causes such as Project Kaisei, a non-profit making organisation established to increase understanding of the scale and impact of debris in our oceans and how we can introduce solutions for both prevention and clean-up

9 our environmental performance and initiatives have earned us awards from various organisations including the Port of Long Beach and, most recently, the Green Awareness Award 2010 from the Hong Kong Marine Department

10 our GHG emissions data has been published via the Carbon Disclosure Project

## 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 our participation on the Shipping Consultative Committee of the Hong Kong Administration, Technical Committees of Lloyd's Register and ClassNK, and the Safety and Loss Advisory board of Standard (Asia) P&I Class. We are members of the Hong Kong delegation to the IMO's STCW Convention Manila Amendments Conference and, since August 2010, we sit on the Hong Kong Marine Department's Seafarer Advisory Board.

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 have invested in recruiting, training and crew retention in the Philippines as we have 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. To counter the shortage of qualified and experienced officers, we launched an officer cadet training programme in June 2010 and recruited ten cadets from the Philippine Merchant Marine Academy.

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 2010, we supported a number of good causes:

- We donated to The Hong Kong Mission to Seafarers and the Sailors Society, The Hong Kong Port Welfare Committee, The Community Chest of Hong Kong, The World Wide Fund for Nature, Concern Worldwide, The Children's Cancer Foundation, and Oxfam (through sponsorship of staff who successfully completed the 100km Oxfam Trailwalker event in Hong Kong);
- We have expanded our support of the Hong Kong Maritime Museum Trust with a donation to help fund the relocation and expansion of the Museum in new and much larger premises in Hong Kong's new Central Harbourfront in 2012;
- We sponsored a fundraising dinner for the Sailors' Society in Singapore at which significant funds were raised through a charity auction of shipping and other memorabilia to support the work of the Society. We continue to sponsor a minibus in Manila for the use of the Society. This vehicle was used in 2010 to provide free transport to nearly 350 seafarers in Manila, and has facilitated over 1,400 ship visits by the Manila port chaplain.
- We participated in a fundraising effort in which a staff member scaled the three highest peaks in the UK in under 24 hours to support the Help For Heroes foundation which provides care to wounded servicemen and women; and
- We have committed to sponsor one student per year on the 3-year BBA (Hons) in International Shipping and Transport Logistics programme at the Hong Kong Polytechnic University.

*Cricket legend David Gower recognises Pacific Basin for its sponsorship of the Sailors Society*

*Pacific Basin joins forces with Project Kaisei for a marine debris awareness boat trip*

## Workplace

We pride ourselves on providing our multi-national colleagues with an attractive, enjoyable, fulfilling, safe and supportive working environment.

We believe that the right investment in our colleagues at all levels of the organisation – both at sea and ashore – does much to increase knowledge and productivity, contribution and engagement, loyalty and retention, and a deeper sense of belonging to the Company. That investment broadly takes the following forms:

- **Social and Team-building Events**
  We gather to celebrate seasonal festivals and the delivery of new ships into our ownership, and we organise team-building off-site events which reinforce the personal bond and understanding each of us has with our colleagues and Company. We also employ a group-wide intranet called "PB Connect" as an online platform for sharing company news from our teams around the world so that each of us is attuned to the Group's latest developments and initiatives, and connected to the PB family.

- **On the Job Training**
  Our trainees receive exposure to a number of areas within our business and that of our various stakeholders. For example, our young executives understudy the heads of functional units within the Company, such as insurance, bunkering and technical, and they attend voyages on board our ships and visits to shipyards, shipping agents, shipbrokers and customers' offices. They also receive preparation support and sponsorship for Institute of Chartered Shipbrokers courses and examinations.

- **Classroom and Seminar-based Training**
  Staff at all levels of the organisation are encouraged to attend training conducted by professional academic bodies and training institutions. In 2010 alone, close to one third of our shore-based colleagues underwent some form of classroom or seminar-based training, which we believe motivates staff whilst enhancing their tools and skill sets to do their job efficiently and effectively.

- **Leadership and Management Training**
  We invest in executive education for senior management as well as colleagues identified as future leaders of the Company which we consider an important part of our succession planning. We send them to leadership consultants and top business schools around the world to hone their leadership skills.

- **Training in other Management Tools**
  The Company equips its managers and leaders with sufficient knowledge of specialised management tools such as psychometric evaluation systems that help in the process of recruitment, team-building, conflict management and promotion strategies.

- **Empowerment and Training of Crew**
  Much of our success in terms of safe ship operations and good operating results can be attributed to the excellence of our seafarer colleagues. Masters and Chief Engineers are empowered as "Pacific Basin Managers" on board our ships, and all crew members are afforded a sense of ownership and responsibility generated by our concept of "22 Crew, 22 Owners" while free to report any issues on board under our "no blame" culture.

1 + 4 *Understanding ship operations through vessel visits*

2 *Pacific Basin's soccer team in action*

3 *Crew members perform at PB Manila's New Year Dinner*

5 *Pacific Basin's annual 'Spring Dinner'*

## Ship Management Standards and Training

We employ a number of Fleet Training Superintendents to sail on vessels and offer on-the-job training to ship staff in safety and key operational areas. Our technical department 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 and safe ship operation.

On shore, we also conduct half-yearly training seminars for our senior officers at our crew training centres in Dalian and Manila so that they are kept fully abreast of regulatory requirements, experience feedback and other developments affecting our industry and their areas of focus. Shore staff attend relevant industry seminars and are also encouraged to undertake higher education courses.

We have operated a cadet recruitment and training scheme in China since 2005, and this has been extended to the Philippines with the launch of an officer cadet training programme in June 2010. In 2011 we intend to double our intake of officer cadets on our vessels.

We have demonstrated a good track record in external inspections and won the Hong Kong Marine Department's "Best Performing Ship Management Company in Port State Control Inspections" awards in 2008, 2009 and again in 2010.

## Health and Safety

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

*In-house safety training seminar in Dalian*

# 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 publishing quarterly results, as the Group believes a trading update gives its shareholders the key quarterly information to assess the development of the Group's business; and
- 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. 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 and appropriate staff from various departments carry out formal internal control reviews in sections other than their own. The Audit Committee continuously assesses the need for any changes in the internal audit function as the Group develops.

## The Board of Directors

The Board's primary responsibilities are to formulate Pacific Basin's long term corporate strategies, to oversee the management of the Group, to evaluate the performance of the Group and to periodically assess the achievement of targets 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 ten Directors whose biographical details are set out in the "Directors and Senior Management" section of this Annual Report. Five of the Directors are Executive, one is Non-executive and four 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 the 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.

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.

## Independence of Independent Non-executive Directors

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

Mr. Daniel R. Bradshaw was appointed a Non-executive Director of the Company in April 2006 and was re-designated as an Independent Non-executive Director of the Company on 1 September 2010. The Company considers that Mr. Bradshaw is independent and is able to carry out his duties as an Independent Non-executive Director of the Company for the following reasons:

(a) Other than Rule 3.13(7) of the Listing Rules (see next page), Mr. Bradshaw is able to confirm his independence to the Stock Exchange in respect of each of the other factors set out in Rule 3.13 of the Listing Rules;

(b) Since the listing of the Company in 2004, Mr. Bradshaw has not had and does not have any executive or management role or functions in the Company and its subsidiaries, nor has he been employed by any member of the Pacific Basin group;

(c) Since the listing of the Company in 2004, Mr. Bradshaw has not been directly or indirectly retained in the provision of any legal advice or services to the Company and any of its subsidiaries;

(d) Mr. Bradshaw personally has not been involved in Mayer Brown JSM ("JSM")'s provision of legal advice or services to the Company's connected persons, its holding company and its subsidiaries;

(e) Mr. Bradshaw does not have any familial or contractual relationships with any Directors, senior management or substantial or controlling shareholder of the Company or any of their respective associates, nor does he hold any other position with the Company or its connected persons, or any of their respective holding company or subsidiaries;

(f) Mr. Bradshaw has not received any income, commission or other monetary compensation which is directly or indirectly related to the payments made by the Group to JSM in respect of the legal services provided by JSM;

(g) Mr. Bradshaw has over 40 years of experience and knowledge of the shipping industry. He held senior positions with various maritime related bodies and organisations. Together with his long and upstanding professional legal background, the Board believes that he is able to exercise his professional judgment and draw upon his extensive shipping knowledge for the benefit of the Company and its shareholders as a whole, in particular, the independent shareholders; and

(h) After due and careful consideration, the Company's Nomination Committee considers Mr. Bradshaw suitably independent to carry out his duties as an Independent Non-executive Director.

Mr. Bradshaw does not meet the factor of Independence set out in Rule 3.13(7) of the Listing Rules as a result of him being a Director of the Company during the two years immediately prior to the date of his re-designation, however this does not change the overall conclusion of the Company regarding Mr. Bradshaw's independence as detailed above.

## Board and Board Committee Meetings

The Board met on eight occasions during 2010. 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 | 8/8 | | |
| Klaus Nyborg | 8/8 | | |
| Jan Rindbo | 7/8 | | |
| Andrew T. Broomhead *(appointed on 1 September 2010)* | 2/2 | | |
| Wang Chunlin | 8/8 | | |
| **Non-executive Directors** | | | |
| Richard M. Hext | 8/8 | | |
| Dr. Lee Kwok Yin, Simon[1] | 0/1 | | |
| **Independent Non-executive Directors** | | | |
| Robert C. Nicholson | 7/8 | 4/4 | 1/1 |
| Patrick B. Paul | 6/8 | 4/4 | 1/1 |
| Alasdair G. Morrison | 8/8 | 4/4 | 1/1 |
| Daniel R. Bradshaw *(a non-executive Director prior to 1 September 2010)* | 8/8 | 3/4 | 1/1 |

*Note:*

*(1) The late Dr. Lee Kwok Yin, Simon was absent for health reasons and ceased to be a Director 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 all the members of these 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.

**Board**

| Executive Committee | Audit Committee | Remuneration Committee | Nomination Committee |
|---|---|---|---|
| ■ Klaus Nyborg (Chairman)<br>■ David M. Turnbull<br>■ Jan Rindbo<br>■ Andrew T. Broomhead<br>■ Wang Chunlin | ■ Patrick B. Paul (Chairman)<br>■ Robert C. Nicholson<br>■ Alasdair G. Morrison<br>■ Daniel R. Bradshaw | ■ Robert C. Nicholson (Chairman)<br>■ Patrick B. Paul<br>■ Alasdair G. Morrison<br>■ Daniel R. Bradshaw | ■ Robert C. Nicholson (Chairman)<br>■ Patrick B. Paul<br>■ Alasdair G. Morrison<br>■ Daniel R. Bradshaw |

## The Audit Committee

### Membership

The Audit Committee consists of all four Independent Non-executive Directors, namely Mr. Patrick B. Paul (Committee Chairman), Mr. Robert C. Nicholson, Mr. Alasdair G. Morrison and Mr. Daniel R. Bradshaw (a Non-executive Director prior to 1 September 2010).

### 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 2010

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

- presentation of the impairment provision for RoRo vessels in the segment report of the 2009 annual report;
- continuing connected transactions for the year ended 31 December 2009 and for the six months ended 30 June 2010;
- independence of all Independent Non-executive Directors;
- Risk Management Committee Reports and Internal Control updates;
- external auditors' Internal Control Memorandum;
- accounting treatment for the issuance and repurchase of convertible bonds;
- external auditors' Audit Strategy Memorandum;
- external auditors' Audit Committee Report in respect of the 2009 full year audit and 2010 interim audit;
- draft 2009 annual report and annual results announcement with a recommendation to the Board for approval;
- 2010 interim report;
- proposed amendments to the Group's treasury manual;
- proposed Risk Management work plan for 2011;
- internal audit function in regard to the Group's business development; and
- Group's insurance strategies and policies.

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

## The Remuneration Committee

### Membership

The Remuneration Committee consists of all four Independent Non-executive Directors, namely Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul, Mr. Alasdair G. Morrison and Mr. Daniel R. Bradshaw (a Non-executive Director prior to 1 September 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 2010

The Remuneration Committee held one meeting during the year and its work (concluded at times by way of written resolutions) included the following matters:

- approval of 2009 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 remuneration package of a senior manager due to his promotion and relocation; and
- approval of remuneration of a newly appointed Director with effect from 1 September 2010.

## The Nomination Committee

### Membership

The Nomination Committee consists of all four Independent Non-executive Directors, namely Mr. Robert C. Nicholson (Committee Chairman), Mr. Patrick B. Paul, Mr. Alasdair G. Morrison and Mr. Daniel R. Bradshaw (a Non-executive Director prior to 1 September 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.

### Work Done in 2010

No meeting was held by the Nomination Committee during the year, although the following recommendations to the Board of Directors were agreed by way of written resolutions:

- the re-designation of Mr. Bradshaw from a Non-executive to an Independent Non-executive Director; and
- the appointment of Mr. Broomhead as a Executive Director for a term of three years.

## The Executive Committee

### Membership

The Executive Committee consists of all five Executive Directors: Board Chairman Mr. David M. Turnbull, Chief Executive Officer Mr. Klaus Nyborg (Committee Chairman), Chief Operating Officer Mr. Jan Rindbo, Chief Financial Officer Mr. Andrew T. Broomhead (appointed a member on 1 January 2010 prior to his appointment as an Executive Director on 1 September 2010) and Executive Director Mr. Wang Chunlin.

### 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 of 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.

*'PB Leichhardt' and 'PB Herbert' commence harbour towage operations in the Port of Townsville*

## 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 and appropriate staff from various departments 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 2010, the Board has reviewed the internal control systems of the Group and no significant areas of concern were identified.

## Controls on Price-sensitive Information

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

- the Group is fully aware of its obligations under the Listing Rules;
- the Group conducts its affairs with close regard to the "Guide on Disclosure of Price-sensitive Information" issued by the Stock Exchange in 2002;
- through channels such as financial reporting, public announcements and websites, the Group has implemented and disclosed its policy on fair disclosure by pursuing broad, non-exclusive distribution of information to the public;
- the Group has included in its Code of Conduct a strict prohibition on the unauthorised use of confidential or insider information; and
- the Group has established and implemented procedures for responding to external enquiries about the Group's affairs, so that only the Chief Executive Officer, Chief Operating Officer, Chief Financial Officer and Corporate Communication & Investor Relations Manager 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, except that a Director traded in the Company's securities without written approval from the Company during a period when no trading restrictions were in place. The Board has formally reminded all Directors that the Model Code stipulates written approval must be received before such transactions can proceed.

## Senior Management and Staff Securities Transactions

The Company has adopted rules for senior managers and those staff who are more likely to be in possession of unpublished price-sensitive information or other relevant information in relation to the Group based on the Model Code for Securities Transactions by Directors (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 2010 is as follows:

| | US$'000 |
|---|---|
| Audit | 1,491 |
| Non-audit | 718 |
| Total | 2,209 |

# Directors and Senior Management

## Executive Directors

### David M. Turnbull

*age 55, 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. Mr. Turnbull joined Pacific Basin's Board on 17 May 2006 when he was appointed as an Independent Non-executive Director of the Company for a term of three years. He assumed the position of Chairman of the Company on 1 January 2008 and was further appointed as an Executive Director on 1 July 2008.

### Klaus Nyborg

*age 47, 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 36, 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 and commercial operations of the Group's dry bulk fleet.

### Andrew T. Broomhead

*age 49, Chief Financial Officer and Company Secretary*

**Andrew Broomhead** graduated from 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. He attended the Breakthrough Programme for Senior Executives at IMD Business School in 2010. 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, USA, Singapore, Indonesia and Hong Kong, and has worked in Asia for over 18 years. Mr. Broomhead joined Pacific Basin in April 2003 as the Group's Chief Financial Officer and Company Secretary. He was appointed as an Executive Director in September 2010 with responsibility for Group finance and accounting, investor relations, corporate governance and compliance, information technology and the oversight of PacMarine Services.

### Wang Chunlin

*age 47, 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. He attended the Breakthrough Programme for Senior Executives at IMD Business School in 2010. 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 relevant to China.

## Non-executive Director

### Richard M. Hext

*age 53*

**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 55*

**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 and an independent non executive director of QPL International Holdings Limited. He is also the executive chairman of Forum Energy Plc and an independent non executive director of India Capital Growth Fund Limited, both of which are 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, Philex Mining Corporation and Pitkin Petroleum Plc. Previously, he was a senior partner of Richards Butler from 1985 to 2001 where he established the corporate and commercial department, and was also a senior advisor to the board of directors of PCCW Limited between August 2001 and September 2003. Mr. Nicholson joined the Board of Pacific Basin in March 2004.

### Patrick B. Paul

*age 63*

**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. Mr. Paul joined the Board of Pacific Basin in March 2004.

### Alasdair G. Morrison

*age 62*

**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, a non-executive director of MTR Corporation Limited, Hong Kong Mercantile Exchange Limited and of Grosvenor Group Limited in the UK. Mr. Morrison joined the Board of Pacific Basin in January 2008.

### Daniel R. Bradshaw

*age 64*

**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 and of IRC Limited, the Hong Kong listed iron ore unit of Russia's third-biggest gold producer Petropavlovsk Plc. He is also a member of the board of Kadoorie Farm and Botanical Garden and of WWF Hong Kong. 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. He was re-designated as an independent Non-executive Director on 1 September 2010.

## Senior Management

### Charles G. Maltby

*age 39, 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 and is now responsible for the Group's combined dry cargo business in the Atlantic region. He is a member of the Institute of Chartered Shipbrokers.

### Chanakya Kocherla

*age 53, Group 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 Group Managing Director of PB Towage. He has 32 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 Asian Shipowners Committee of Lloyd's Register of Shipping, and our Towage division at the International Support Vessel Owners' Association.

### Morten H. Ingebrigtsen

*age 48, Director, Asset Management*

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

### Danish Sultan

*age 50, 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 wholly 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.

# Remuneration Report

*Logs carried on 'Cook Strait'*

This Remuneration Report sets out the Group's remuneration policies and amounts 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 2010 is shown below:

| | Salaries US$'000 | Bonuses US$'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 |
|---|---|---|---|---|---|---|
| **2010** | | | | | | |
| David M. Turnbull | **350** | **233** | **2** | **585** | **204** | **789** |
| Klaus Nyborg | **696** | **637** | **2** | **1,335** | **344** | **1,679** |
| Jan Rindbo | **501** | **520** | **2** | **1,023** | **293** | **1,316** |
| Andrew T. Broomhead [(a)] | **359** | **312** | **2** | **673** | **156** | **829** |
| Wang Chunlin | **354** | **175** | **26** | **555** | **262** | **817** |
| **Total** | **2,260** | **1,877** | **34** | **4,171** | **1,259** | **5,430** |
| 2009 | | | | | | |
| David M. Turnbull | 225 | 187 | 2 | 414 | 276 | 690 |
| Richard M. Hext [(b)] | 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 |

*(a) Mr. Broomhead, the Chief Financial Officer and Company Secretary of the Company was appointed as an Executive Director on 1 September 2010. The above represents his remuneration for the full year.*

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

## 3. Non-executive Directors' Remuneration

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

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| **Non-executive Directors** | | |
| Dr. Lee Kwok Yin, Simon (ceased to be a Director on 18 February 2010) | 6 | 45 |
| Richard M. Hext (appointed as a Non-executive Director on 1 January 2010) | 32 | – |
| | 38 | 45 |
| **Independent Non-executive Directors** | | |
| Robert C. Nicholson | 81 | 71 |
| Patrick B. Paul | 81 | 71 |
| Alasdair G. Morrison | 81 | 71 |
| Daniel R. Bradshaw (re-designated as an Independent Non-executive Director from a Non-executive Director on 1 September 2010) | 81 | 71 |
| | 324 | 284 |
| Total | 362 | 329 |

## 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 2010 is shown below:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Directors' fees | 362 | 329 |
| Salaries | 2,260 | 2,268 |
| Bonuses | 1,877 | 2,084 |
| Retirement benefit costs | 34 | 32 |
| Total payable | 4,533 | 4,713 |
| Share-based compensation | 1,259 | 1,284 |
| Total | 5,792 | 5,997 |

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 five (2009: six) senior management and charged in the financial statements for the year ended 31 December 2010 is shown below:

| | 2010<br>US$'000 | 2009<br>US$'000 |
|---|---|---|
| Salaries | 1,123 | 1,480 |
| Bonuses | 608 | 1,281 |
| Retirement benefit costs | 157 | 129 |
| Total payable | 1,888 | 2,890 |
| Share-based compensation | 452 | 731 |
| Total | 2,340 | 3,621 |

## 6. Five Highest Paid Individuals

The five individuals whose emoluments were the highest in the Group for the year ended 31 December 2010 are the five Directors (2009: four) whose emoluments are reflected in section 2 of this Remuneration Report.

For the year ended 31 December 2009, the emoluments of the one remaining highest paid individual shown below fell within the emolument band of HK$6,000,001 to HK$6,500,000 (US$769,231 – US$833,333).

| | 2010<br>US$'000 | 2009<br>US$'000 |
|---|---|---|
| Salaries | – | 260 |
| Bonuses | – | 479 |
| Retirement benefit costs | – | 1 |
| Total payable | – | 740 |
| Share-based compensation | – | 33 |
| Total | – | 773 |

# Report of the Directors


*'Darling River' passing Rumeli Hisari on the Bosporus in Istanbul*

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 2010.

## Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The Company's principal subsidiaries (set out in Note 37 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 81.

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 16.5 cents per Share for the year ended 31 December 2010. When this proposed dividend is aggregated with the interim dividend of HK 5 cents per Share declared on 3 August 2010, the total payout of HK 21.5 cents per Share represents 51% of the Group's profits for the year ended 31 December 2010. The proposed final dividend for 2010 of HK 16.5 cents per Share will be considered at the 2011 Annual General Meeting scheduled on 19 April 2011.

## 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$684,000.

## 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.

## Convertible Bonds

Details of the convertible bonds issued during the year are disclosed in the "Financial Review" section of this Annual Report and under Note 20(c)(ii) to the financial statements.

## Distributable Reserves

Distributable reserves of the Company at 31 December 2010, calculated in accordance with the Companies Act 1981 of Bermuda, amounted to US$701.0 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 20,875 units of the Group's convertible bonds due 2013 with a face value of US$10,000 each during the year at an average price of US$10,006.85 per unit. The purchase involved a total cash outlay of US$208.9 million including commission but excluding accrued interest of US$1.9 million and was for the purpose of saving 3.3 per cent per annum coupon payments on the convertible bonds in the period before redemption or maturity. The repurchase and cancellation of the convertible bonds has resulted in a reduction of long term liabilities and a loss in the income statement.

At 31 December 2010, bondholders holding an aggregate of 8,092 units of the Group's convertible bonds due 2013 with a face value of US$10,000 each had exercised the put option for redemption of their convertible bonds. On 1 February 2011, these convertible bonds with total principal value of US$80.92 million were redeemed and cancelled. On the same day, the Group issued a notice to all bondholders of the Group's convertible bonds due 2013 exercising the call option right for the remaining balance of US$24.28 million or 24,280 units with a face value of US$10,000 each. The relevant redemption and cancellation of the 24,280 units will have been completed on or around 4 March 2011.

Save 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 6.56% of the Shares in issue as at the date of this Annual Report. As at the date of this Annual Report, there were 400,000 outstanding share options and 16,830,500 restricted shares not vested under the LTIS which represents 0.89% 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 2010 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 2010 | Exercised during the year | At 31 December 2010 |
| **Other Employees** | 1,178,000 | (778,000) | 400,000 |

### (ii) Restricted Share Awards

| | Number of restricted share awards | | | | |
|---|---|---|---|---|---|
| | At 1 January 2010 | Granted during the year (on 14 May) | Vested during the year | Lapsed during the year [9] | At 31 December 2010 |
| **Directors** | | | | | |
| David M. Turnbull [1] | 533,000 | 313,000 | (117,000) | – | 729,000 |
| Klaus Nyborg [2] | 1,802,000 | 622,000 | (500,000) | – | 1,924,000 |
| Jan Rindbo [3] | 984,000 | 448,000 | (350,000) | – | 1,082,000 |
| Wang Chunlin [4] | 1,082,000 | 315,000 | (360,000) | – | 1,037,000 |
| Andrew T. Broomhead [5] | 499,000 | 304,000 | (200,000) | – | 603,000 |
| Richard M. Hext [6] | 870,754 | – | (870,754) | – | – |
| | 5,770,754 | 2,002,000 | (2,397,754) | – | 5,375,000 |
| **Senior Management** [7] | 2,383,000 | 779,000 | (587,000) | (448,000) | 2,127,000 |
| **Other Employees** [8] | 9,132,500 | 3,665,000 | (2,954,000) | (515,000) | 9,328,500 |
| | 17,286,254 | 6,446,000 | (5,938,754) | (963,000) | 16,830,500 |

*Notes:*

*(1) An aggregate of 963,000 Shares have been granted to Mr. Turnbull since 5 August 2008, of which (i) 234,000 Shares have vested (inclusive of 117,000 Shares vested on 2 July 2010); (ii) 117,000 Shares will vest on 2 July 2011; (iii) 299,000 Shares will vest on 14 July 2012; and (iv) 313,000 Shares will vest on 14 July 2013.*

*(2) An aggregate of 3,924,000 Shares have been granted to Mr. Nyborg since 19 September 2006, of which (i) 2,000,000 Shares have vested (inclusive of 500,000 Shares vested on 4 September 2010); (ii) 500,000 Shares will vest on 4 September 2011; (iii) 802,000 Shares will vest on 14 July 2012; and (iv) 622,000 Shares will vest on 14 July 2013.*

*(3) An aggregate of 2,112,000 Shares have been granted to Mr. Rindbo since 11 May 2007, of which (i) 1,030,000 Shares have vested (inclusive of 350,000 Shares vested on 14 July 2010); (ii) 149,000 Shares will vest on 14 July 2011; (iii) 485,000 Shares will vest on 14 July 2012; and (iv) 448,000 Shares will vest on 14 July 2013.*

*(4) An aggregate of 2,207,000 Shares have been granted to Mr. Wang since 9 March 2006, of which (i) 1,170,000 Shares have vested (inclusive of 110,000 Shares vested on 1 March 2010 and 250,000 Shares vested on 14 July 2010); (ii) 110,000 Shares will vest on 1 March 2011; (iii) 145,000 Shares will vest on 14 July 2011; (iv) 467,000 Shares will vest on 14 July 2012; and (v) 315,000 will vest on 14 July 2013.*

*(5) Mr. Broomhead (previously categorised as Senior Management) was appointed as an executive Director since 1 September 2010 in addition to the roles of Chief Financial Officer and Company Secretary. An aggregate of 1,163,000 Shares have been granted to Mr. Broomhead since 11 May 2007, prior to him being appointed as an Executive Director, of which (i) 560,000 Shares have vested (inclusive of 200,000 Shares vested on 14 July 2010); (ii) 70,000 Shares will vest on 14 July 2011; (iii) 229,000 Shares will vest on 14 July 2012; and (iv) 304,000 Shares will vest on 14 July 2013.*

*(6) An aggregate of 5,560,741 Shares have been granted to Mr. Hext since 8 June 2005, of which (i) 4,353,741 Shares have vested (inclusive of 870,754 Shares vested on 5 April 2010); and (ii) 1,207,000 Shares lapsed on 31 December 2009 upon his resignation as an executive Director.*

*(7) The 2,127,000 Shares held by Senior Management at 31 December 2010 will vest as follow:*
- *(i) 80,000 Shares on 1 March 2011;*
- *(ii) 77,000 Share on 1 April 2011;*
- *(iii) 251,000 Shares on 14 July 2011;*
- *(iv) 940,000 Shares on 14 July 2012; and*
- *(v) 779,000 Shares on 14 July 2013.*

*(8) The 9,328,500 Shares held by Other Employees at 31 December 2010 have vested or lapsed, or will vest as follow:*
- *(i) 35,000 Shares on 6 January 2011;*
- *(ii) 90,000 Shares lapsed on 28 February 2011 upon resignation of one Employee;*
- *(iii) 142,500 Shares on 1 March 2011;*
- *(iv) 1,742,000 Shares on 14 July 2011;*
- *(v) 33,000 Shares on 24 July 2011;*
- *(vi) 40,000 Shares on 23 August 2011;*
- *(vii) 4,250,000 Shares on 14 July 2012; and*
- *(viii) 2,996,000 Shares on 14 July 2013.*

*(9) 963,000 Shares lapsed due to resignation of one senior manager and six Employees during the year.*

The closing price of the Shares of the Company immediately before the grant of 6,446,000 restricted share awards on 14 May 2010 was HK$5.78.

## (h) Valuation of the Share Options

Based on a report prepared by Watson Wyatt Hong Kong Limited, the average fair market values of the 55,500,000 share options granted on 14 July 2004 under the LTIS based on the binomial option pricing model for the exercise period from 14 July 2005 to 13 July 2014 is HK$0.834 per share option.

*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 until conclusion of the 2012 AGM |
| Andrew T. Broomhead (Chief Financial Officer & Company Secretary) | 1 September 2010 | – | – | – | 1 January 2010 | 3 years from 1 September 2010 |
| Wang Chunlin | 1 September 2006 | – | – | – | 1 September 2006 | 3 years from 1 September 2010 |
| **Non-executive Director** | | | | | | |
| Richard M. Hext [4] | 5 April 2005 | – | – | – | – | 3 years until conclusion of the 2013 AGM |
| **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 until conclusion of the 2012 AGM |
| Patrick B. Paul (Chairman of Audit Committee) | 25 March 2004 | 18 May 2004 | 10 June 2004 | 30 November 2004 | – | 3 years until conclusion of the 2013 AGM |
| Alasdair G. Morrison | 1 January 2008 | 1 January 2008 | 1 January 2008 | 1 January 2008 | – | 3 years until conclusion of the 2013 AGM |
| Daniel R. Bradshaw [5] | 7 April 2006 | 7 April 2006 | 7 April 2006 | 7 April 2006 | – | 3 years until conclusion of the 2012 AGM |

*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 became the Chief Operating Officer on 1 January 2010.*

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

*(5) Mr. Bradshaw was re-designated from a Non-executive Director to an Independent Non-executive Director on 1 September 2010.*

Messrs. David M. Turnbull, Robert C. Nicholson and Daniel R. Bradshaw will retire at the forthcoming 2011 Annual General Meeting by rotation pursuant to the Company's Bye-laws 87(1) & (2), and, being eligible, will offer themselves for re-election.

In accordance with Bye-law 86(2) of the Company, Mr. Andrew T. Broomhead (appointed by the Board), being eligible, will offer himself for re-election at the forthcoming 2011 Annual General Meeting.

## Directors' Service Contracts

None of the Directors who are proposed for re-election at the 2011 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 2010, 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] | – | 729,000 | – | 502,629 [2] | Long Position | – | 1,231,629 | 0.06% |
| Klaus Nyborg [1] | – | 1,924,000 | – | – | Long Position | – | 1,924,000 | 0.10% |
| Jan Rindbo [1] | – | 3,053,370 | – | – | Long Position | – | 3,053,370 | 0.16% |
| Andrew T. Broomhead [1] | – | 2,160,855 [3] | – | – | Long Position | – | 2,160,855 | 0.11% |
| Wang Chunlin [1] | – | 1,037,000 | – | – | Long Position | – | 1,037,000 | 0.05% |
| Richard M. Hext [1] | – | 871,501 | – | – | Long Position | – | 871,501 | 0.05% |
| Patrick B. Paul | – | 10,000 | – | – | Long Position | – | 10,000 | 0.00% |
| Daniel R. Bradshaw | 386,417 [4] | – | – | – | Long Position | – | 386,417 | 0.02% |
| 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 69 to page 70 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 due 2013 with a face value of US$10,000 each. Mr. Turnbull exercised the put option in December 2010 in respect of 77 units of convertible bonds due 2013 and these bonds having principal value of US$770,000 were redeemed on 1 February 2011. In addition, the remaining 47 units of convertible bonds due 2013 were to be redeemed by the Group on or around 4 March 2011.*

(3) *1,161,151 Shares out of 2,160,855 Shares Personal Interests held by Mr. Broomhead are in the form of 250 units of convertible bonds with a face value of US$10,000 each (225 units of convertible bonds due 2013 and 25 units of convertible bonds due 2016). Mr. Broomhead exercised the put option in December 2010 in respect of his entire holding of convertible bonds due 2013 and these bonds having principal value of US$2,250,000 were redeemed by the Group on 1 February 2011.*

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

(5) *Mr. Morrison's personal interests of 608,019 Shares are held in the form of 150 units of convertible bonds due 2013 with a face value of US$10,000 each. Mr. Morrison exercised the put option in December 2010 in respect of his entire holding of convertible bonds due 2013 and these bonds having principal value of US$1,500,000 were redeemed by the Group on 1 February 2011.*

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under section 352 of the SFO at 31 December 2010.

Save 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 2010, 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 |
|---|---|---|---|---|
| Michael HAGN | Interest in corporation controlled | Long Position | 230,609,000 | 11.94% |
| MIHAG Holding Ltd. | Interest in corporation controlled | Long Position | 230,609,000 | 11.94% |
| Canadian Forest Navigation Co. Ltd./ Compagnie De Navigation Canadian Forest Ltee.[1] | Beneficial owner and Interest in corporation controlled | Long Position | 230,609,000 | 11.94% |
| Total Investments Inc. | Interest in corporation controlled | Long Position | 103,256,654 | 5.35% |
| Total Banking Corporation | Beneficial owner | Long Position | 103,256,654 | 5.35% |
| JP Morgan Chase & Co. [2] | Beneficial owner, Investment manager and Custodian corporation/approved lending agent | Long Position<br>Short Position<br>Lending Pool | 189,852,623<br>8,130,560<br>55,502,666 | 9.83%<br>0.42%<br>2.87% |
| UBS AG[3] | Beneficial owner, Person having a security interest in Shares and Interest in corporation controlled | Long Position<br>Short Position | 135,096,256<br>4,252,062 | 6.99%<br>0.22% |
| Aberdeen Asset Management Plc and its Associates (together the "Group") On behalf of Accounts Managed By the Group | Investment manager | Long Position | 118,106,536 | 6.11% |
| Baillie Gifford & Co [4] | Investment manager and Interest in corporation controlled | Long Position | 98,150,640 | 5.08% |
| Alex CALLANDER | Interest in corporation controlled | Long Position | 98,150,640 | 5.08% |
| Charles PLOWDEN | Interest in corporation controlled | Long Position | 98,150,640 | 5.08% |
| Andrew TELFER | Interest in corporation controlled | Long Position | 98,150,640 | 5.08% |
| Alison WARDEN | Interest in corporation controlled | Long Position | 98,150,640 | 5.08% |
| Sarah WHITLEY | Interest in corporation controlled | Long Position | 98,150,640 | 5.08% |

*Notes:*

*(1) The Shares held by Canadian Forest Navigation Co. Ltd./Compagnie De Navigation Canadian Forest Ltee are held in the capacities of Beneficial owner (relating to 127,352,346 Shares) and Interest in corporation controlled (relating to 103,256,654 Shares).*

*(2) The Shares held by JP Morgan Chase & Co. are held in the capacities of Beneficial owner (relating to 10,872,400 Shares), Investment manager (relating to 123,477,557 Shares) and Custodian corporation/approved lending agent (relating to 55,502,666 Shares).*

*(3) The Shares held by UBS AG are held in the capacities of Beneficial owner (relating to 72,491,738 Shares), Person having a security interest in Shares (relating to 8,665,190 Shares) and Interest in corporation controlled (relating to 53,939,328 Shares).*

*(4) The Shares held by Baillie Gifford & Co are held in the capacities of Investment manager (relating to 50,818,640 Shares) and Interest in corporation controlled (relating to 47,332,000 Shares).*

Save as disclosed above, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, as at 31 December 2010, no other person (other than a Director or Chief Executive of the Company) had an interest or short position in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which was recorded in the register required to be kept by the Company under 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 no connected transaction that was subject to the Listing Rules' reporting requirements for disclosure in this Annual Report.

## 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.

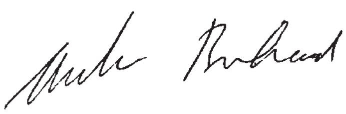
## Auditors

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**
*Director and Company Secretary*

Hong Kong, 1 March 2011

# Financial Statements

# Independent Auditor's Report

## 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 78 to 147, which comprise the consolidated and company balance sheets as at 31 December 2010, 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 information.

## Directors' Responsibility for the Consolidated Financial Statements

The Directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view 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, and for such internal control as the Directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

## 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 about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 consolidated 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 2010, 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**
*Certified Public Accountants*

Hong Kong, 1 March 2011

# Consolidated Balance Sheet

As at 31 December 2010

| | Note | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 6 | **1,518,632** | 997,961 |
| Investment properties | 7 | **2,664** | 2,600 |
| Land use rights | 8 | **3,815** | 3,864 |
| Goodwill | 9 | **25,256** | 25,256 |
| Interests in jointly controlled entities | 11 | **56,125** | 49,615 |
| Investments in associates | 12 | **4,098** | 3,249 |
| Available-for-sale financial assets | 13 | **74,476** | 62,016 |
| Derivative assets | 14 | **1,672** | 6,879 |
| Trade and other receivables | 15 | **6,792** | 8,232 |
| Restricted bank deposits | 16 | **10,280** | 40,084 |
| Other non-current assets | 17 | **–** | 59,887 |
| | | **1,703,810** | 1,259,643 |
| Current assets | | | |
| Inventories | 18 | **39,911** | 33,858 |
| Derivative assets | 14 | **7,066** | 20,336 |
| Trade and other receivables | 15 | **111,444** | 90,478 |
| Restricted bank deposits | 16 | **3,421** | 16,483 |
| Cash and deposits | 16 | **689,736** | 1,049,095 |
| | | **851,578** | 1,210,250 |
| Current liabilities | | | |
| Derivative liabilities | 14 | **3,972** | 10,505 |
| Trade and other payables | 19 | **127,248** | 111,740 |
| Current portion of long term borrowings | 20 | **165,696** | 54,728 |
| Taxation payable | | **3,059** | 3,737 |
| Provision for onerous contracts | 21 | **2,031** | – |
| | | **302,006** | 180,710 |
| Net current assets | | **549,572** | 1,029,540 |
| Total assets less current liabilities | | **2,253,382** | 2,289,183 |

| | Note | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| Non-current liabilities | | | |
| Derivative liabilities | 14 | **14,721** | 9,735 |
| Long term borrowings | 20 | **693,770** | 821,850 |
| Provision for onerous contracts | 21 | **–** | 2,031 |
| | | **708,491** | 833,616 |
| Net assets | | **1,544,891** | 1,455,567 |
| Equity | | | |
| Capital and reserves attributable to shareholders | | | |
| Share capital | 22 | **193,164** | 192,708 |
| Retained profits | 23 | **720,809** | 659,339 |
| Other reserves | 23 | **630,918** | 603,520 |
| Total equity | | **1,544,891** | 1,455,567 |

Approved by the Board of Directors on 1 March 2011

**Klaus Nyborg**
*Director*

**Andrew T. Broomhead**
*Director*

# Balance Sheet of the Company

As at 31 December 2010

| | Note | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| Non-current assets | | | |
| Investments in subsidiaries | 10 | **227,736** | 223,931 |
| Current assets | | | |
| Prepayments and other receivables | | **36** | 142 |
| Amounts due from subsidiaries | 10 | **1,584,210** | 1,503,278 |
| Cash and cash equivalents | 16 | **13** | 13 |
| | | **1,584,259** | 1,503,433 |
| Current liabilities | | | |
| Accruals and other payables | | **512** | 334 |
| Amount due to subsidiaries | 10 | **320,198** | 312,814 |
| | | **320,710** | 313,148 |
| Net current assets | | **1,263,549** | 1,190,285 |
| Total assets less current liabilities | | **1,491,285** | 1,414,216 |
| Equity | | | |
| Share capital | 22 | **193,164** | 192,708 |
| Retained profits | 23 | **701,032** | 626,510 |
| Other reserves | 23 | **597,089** | 594,998 |
| Total equity | | **1,491,285** | 1,414,216 |

Approved by the Board of Directors on 1 March 2011

**Klaus Nyborg**
*Director*

**Andrew T. Broomhead**
*Director*

# Consolidated Income Statement

For the year ended 31 December 2010

| | Note | 2010<br>*US$'000* | 2009<br>*US$'000* |
|---|---|---|---|
| Revenue | 5 | **1,268,542** | 950,477 |
| Direct costs | 24 | **(1,109,213)** | (797,681) |
| Gross profit | | **159,329** | 152,796 |
| General and administrative expenses | 24 | **(12,945)** | (12,292) |
| Other income and gains | 25 | **47,176** | 110,477 |
| Other expenses | 24 | **(59,189)** | (118,802) |
| Finance costs, net | 27 | **(31,193)** | (27,321) |
| Share of profits less losses of jointly controlled entities | 11 | **1,805** | 7,246 |
| Share of profits less losses of associates | 12 | **(192)** | (103) |
| Profit before taxation | | **104,791** | 112,001 |
| Taxation | 28 | **(453)** | (1,723) |
| Profit attributable to shareholders | | **104,338** | 110,278 |
| Dividends | 30 | **53,372** | 57,184 |
| Earnings per share for profit attributable to shareholders | | | |
| Basic | 31(a) | **US 5.41 cents** | US 5.94 cents |
| Diluted | 31(b) | **US 5.41 cents** | US 5.93 cents |

# Consolidated Statement of Comprehensive Income

For the year ended 31 December 2010

| | **2010** <br> ***US$'000*** | 2009 <br> *US$'000* |
|---|---|---|
| Profit attributable to shareholders | **104,338** | 110,278 |
| Other comprehensive income | | |
| Currency translation differences | **8,871** | 24,949 |
| Cash flow hedges: | | |
| – fair value losses | **(2,543)** | (146) |
| – transferred to property, plant and equipment | **(15,431)** | (1,729) |
| – transferred to finance costs in consolidated income statement | **(3,698)** | 2,731 |
| Fair value gains on available-for-sale financial assets | **29,320** | 20,121 |
| Release of investment valuation reserve upon disposal of available-for-sale financial assets | **(5,441)** | – |
| Total comprehensive income attributable to shareholders | **115,416** | 156,204 |

# Consolidated Statement of Changes in Equity

For the year ended 31 December 2010

| | Note | Total US$'000 |
|---|---|---|
| **Balance at 1 January 2010** | | **1,455,567** |
| Shares issued upon exercise of share options | 22(a) | **251** |
| Shares purchased by trustee of the LTIS | 22 | **(1,294)** |
| Equity component of convertible bonds issued | 20(c)(ii) | **32,302** |
| Share-based compensation | | **3,911** |
| Derecognition of the equity component upon repurchase and cancellation of convertible bonds | 20(c)(i) | **(11,568)** |
| Dividends paid | 30 | **(49,694)** |
| Total comprehensive income attributable to shareholders | | **115,416** |
| **Balance at 31 December 2010** | | **1,544,891** |
| Balance at 1 January 2009 | | 1,218,702 |
| Shares purchased by trustee of the LTIS | 22 | (1,296) |
| Shares issued upon placing of new shares, net of issuing expenses | | 97,054 |
| Share-based compensation | | 5,377 |
| Derecognition of the equity component upon repurchase and cancellation of convertible bonds | 20(c)(i) | (562) |
| Dividends paid | 30 | (19,912) |
| Total comprehensive income attributable to shareholders | | 156,204 |
| Balance at 31 December 2009 | | 1,455,567 |

# Consolidated Cash Flow Statement

For the year ended 31 December 2010

| | Note | 2010 US$'000 | 2009 US$'000 |
|---|---|---|---|
| Operating activities | | | |
| Cash generated from operations | 32(a) | 200,183 | 147,003 |
| Hong Kong profits tax paid | | (540) | (1,425) |
| Overseas taxation paid | | (1,066) | (241) |
| Net cash from operating activities | | 198,577 | 145,337 |
| Investing activities | | | |
| Purchase of property, plant and equipment | 32(b) | (541,254) | (274,891) |
| Disposal of property, plant and equipment | | 119 | 17,574 |
| Purchase of assets held for sale | | – | (21,790) |
| Disposal of assets held for sale | | – | 87,681 |
| Purchase of land use rights | | – | (888) |
| Purchase of investment properties | | – | (292) |
| Investments in jointly controlled entities | | (14,189) | – |
| Disposal of jointly controlled entities | | – | 12 |
| Increase in loan to a jointly controlled entity | | (1,669) | (24,298) |
| Loan repayment received from jointly controlled entities | | 5,565 | 54,200 |
| Dividends received from a jointly controlled entity | | – | 15,240 |
| Investment in an associate | | (848) | – |
| Increase in loan to an associate | | (100) | (232) |
| Purchase of available-for-sale financial assets | | (168) | (633) |
| Refund of available-for-sale financial assets | | 2,071 | 2,192 |
| Disposal of available-for-sale financial assets | | 25,498 | – |
| Payment for other non-current assets | | – | (3,649) |
| Interest received | | 19,093 | 11,433 |
| Receipt from forward foreign exchange contracts | | – | 17,117 |
| Decrease/(increase) in restricted bank deposits | | 42,444 | (7,699) |
| Increase in notes receivable | | – | (50,000) |
| Receipt of finance lease receivables – capital element | | 1,284 | 1,147 |
| Net cash used in investing activities | | (462,154) | (177,776) |
| Financing activities | | | |
| Proceeds from shares issued upon placing of new shares, net of issuing expenses | | – | 97,054 |
| Proceeds from issuance of convertible bonds, net of issuing expenses | | 227,372 | – |
| Payment for repurchase and cancellation of convertible bonds | 20(c) | (210,829) | (8,569) |
| Payment for shares purchased by trustee of the LTIS | 22 | (1,294) | (1,296) |
| Proceeds from shares issued upon exercise of share options | | 251 | – |
| Repayment of bank loans | | (90,145) | (97,068) |
| Drawdown of bank loans | | 79,822 | 134,838 |
| Interest and other finance charges paid | | (37,087) | (35,366) |
| Dividends paid to shareholders of the Company | | (49,694) | (19,912) |
| Repayment of finance lease payables – capital element | | (14,928) | (13,963) |
| Net cash (used in)/from financing activities | | (96,532) | 55,718 |
| Net (decrease)/increase in cash and cash equivalents | | (360,109) | 23,279 |
| Cash and cash equivalents at 1 January | | 999,095 | 974,876 |
| Exchange gains on cash and cash equivalents | | 750 | 940 |
| Cash and cash equivalents at 31 December | | 639,736 | 999,095 |

# Notes to the Financial Statements

## 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 1 March 2011.

## 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 2010, 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 17 (Amendment) | Leases |
| HKAS 27 (Revised) | Consolidated and separate financial statements |
| HKAS 28 (Amendments) | Investments in associates |
| HKAS 31 (Amendments) | Interests in joint ventures |
| HKAS 36 (Amendments) | Unit of accounting for goodwill impairment test |
| HKFRS 2 (Amendments) | Group cash-settled share-based payment transaction |
| HKFRS 3 (Revised) | Business combinations |

## 2 Summary of Significant Accounting Policies (Continued)

### 2.1 Basis of preparation (continued)

Except for certain changes in the 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.

(i) HKFRS 3 (revised), "Business combinations", and consequential amendments to HKAS 27, "Consolidated and separate financial statements", HKAS 28, "Investments in associates", and HKAS 31, "Interests in joint ventures", are effective prospectively to business combination for which the acquisition date is on or after the beginning of the first annual reporting period commencing 1 July 2009.

The revised standard continues to apply the acquisition method to business combinations but with some significant changes compared with HKFRS 3. For example, all payments to purchase a business are recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently re-measured through the income statement. For the accounting of non-controlling interest, it should be considered on an acquisition-by-acquisition basis. There is a choice to measure the non-controlling interest in the acquiree at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets. When a business combination is achieved in stages, the acquirer should measure its previously held interest in the acquiree at fair value on the date control is obtained, recognising a gain or loss in the income statement. All acquisition-related costs are expensed.

As the Group has adopted HKFRS 3 (revised), it is required to adopt HKAS 27 (revised) at the same time. HKAS 27 (revised) requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer give rise to any goodwill or gains or losses. The standard also specifies the accounting treatment when control is lost whereby any remaining interest in the entity is re-measured at fair value, and a gain or loss is recognised in the income statement.

(ii) HKFRS 2 (Amendment), "Group cash-settled share-based payment transaction". The amendment incorporates HK(IFRIC)-Int 8, "Scope of HKFRS 2", and HK(IFRIC) – Int 11, "HKFRS 2 – Group and treasury share transactions". The amendment clarifies that an entity that receives goods or services in a share-based payment arrangement must recognise, in its separate financial statements, an expense for those goods or services regardless of which entity in the group settles the transaction and the form of settlement (ie, in shares or in cash).

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 2011 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 2010. The new and amended standards, interpretations and improvements that are relevant to the Group's operation are as follows:

| | |
|---|---|
| HKAS 1 (Amendments) | Clarification of statement of changes in equity |
| HKAS 27 (Amendments) | Consolidated and separate financial statements |
| HKAS 34 (Amendments) | Interim financial reporting |
| HKAS 39 (Amendment) | Eligible hedged items |
| HKFRS 1 (Amendments) | First-time adoption of HKFRS |
| HKFRS 3 (Revised) | Business combinations |
| HKFRS 7 (Amendments) | Clarifications of disclosures |
| HKFRS 9 | Financial instruments |

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 Group uses the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net assets.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired is recorded as goodwill. If this is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognised directly in the 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 non-controlling interests***

The Group treats transactions with non-controlling interests as transactions with equity owners of the Group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the Group ceases to have control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognised in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognised in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognised in other comprehensive income are reclassified to profit or loss.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognised in other comprehensive income are reclassified to profit or loss where appropriate.

## 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 other comprehensive income. 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 other comprehensive income.

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' other comprehensive income. 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 25 years for all vessels, except RoRo vessels of 30 years, from the date of first registration.

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

**(iii) *Other property, plant and equipment***

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

| | |
|---|---|
| Buildings | 50 years |
| Leasehold improvements | 5 to 6 years or the remaining period of the lease, whichever is shorter |
| Furniture, fixtures and equipment | 3 to 10 years |
| Motor vehicles | 4 to 5 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 identified according to operating segment.

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

Assets that have an indefinite useful life, such as 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 unit ("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. 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.

***(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 other comprehensive income.

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 other comprehensive income. 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 "direct costs". 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 other comprehensive income 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 mainly represent freight and charter-hire payables which 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 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 with corresponding credit to reserve.

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.

The grant by the Company of share-based compensation over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase in investment in subsidiary undertakings, with a corresponding credit to equity in the Company's account. In the accounts of the subsidiaries, such fair value is recognised as an expense in the income statement with corresponding credit to reserve.

## 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 2010, the Group had derivative assets and liabilities in respect of FFAs of US$3.1 million (2009: US$12.0 million) and US$4.3 million (2009: US$9.8 million) respectively (Note 14(c)).

With all other variables held constant, if the average forward freight rate on FFA contracts held by the Group at the balance sheet date had been 20% higher/lower, the Group's profit after tax and equity would decrease/increase by approximately US$0.6 million (2009: US$5.3 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 2010, 37% (2009: 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 2010, the Group had derivative assets and liabilities in respect of interest rate swap contracts of US$0.2 million (2009: US$1.1 million) and US$13.4 million (2009: US$7.8 million) respectively (Note 14(a)).

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$3.0 million (2009: US$5.0 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 2010, the Group had derivative assets and liabilities in respect of bunker swap contracts of US$5.5 million (2009: US$14.2 million) and US$0.4 million (2009: US$0.9 million) respectively (Note 14(b)).

With all other variables held constant, if the average forward bunker rate on the bunker swap contracts held by the Group at the balance sheet date had been 10% higher/lower, the Group's profit after tax and equity would increase/decrease by approximately US$6.8 million (2009: US$8.2 million). Future movements in bunker price will be reflected in the eventual operating results derived from the vessels, which would offset such increase/decrease of the Group's profit after tax and equity.

*(d) Foreign exchange risk*

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

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

The Group has limited exposure to the fluctuation of foreign exchange rate. As at 31 December 2010, the Group had derivative liabilities in respect of forward foreign exchange contracts of US$0.5 million (2009: US$1.7 million) to cover the future payments denominated in Danish Kroner (Note 14(d)).

## 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 2010, the Group had available-for-sale financial assets of US$74.5 million (2009: US$62.0 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 equity would increase/decrease by approximately US$7.5 million (2009: US$6.2 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 2010.

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 2010** | | | | | |
| **Long term borrowings** | | | | | |
| – Gross liabilities under finance lease | **28,105** | **28,096** | **130,899** | **49,839** | **236,939** |
| – Secured bank loans | **54,359** | **52,932** | **257,103** | **63,710** | **428,104** |
| – Convertible bonds | **111,048** | **4,025** | **12,075** | **232,013** | **359,161** |
| | **193,512** | **85,053** | **400,077** | **345,562** | **1,024,204** |
| **Derivative financial instruments** | | | | | |
| **(i) Net-settled (Note a)** | | | | | |
| – Interest rate swap contracts | **4,783** | **4,737** | **4,459** | **449** | **14,428** |
| – Bunker swap contracts | **402** | **35** | **–** | **–** | **437** |
| – Forward freight agreements | **3,570** | **698** | **–** | **–** | **4,268** |
| | **8,755** | **5,470** | **4,459** | **449** | **19,133** |
| **(ii) Gross-settled (Note b)** | | | | | |
| Forward foreign exchange contracts | | | | | |
| – Cash flow hedges: | | | | | |
| – outflow | **7,456** | **7,211** | **20,288** | **34,460** | **69,415** |
| – inflow | **(7,330)** | **(7,097)** | **(19,781)** | **(33,416)** | **(67,624)** |
| Net outflow/(inflow) | **126** | **114** | **507** | **1,044** | **1,791** |
| **Current liabilities** | | | | | |
| Trade and other payables | **100,033** | **–** | **–** | **–** | **100,033** |
| At 31 December 2009 | | | | | |
| Long term borrowings | | | | | |
| – Gross liabilities under finance lease | 28,114 | 28,105 | 84,256 | 124,578 | 265,053 |
| – Secured bank loans | 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 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 |

(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 2009 and 2010.

## 3 Financial Risk Management (Continued)

### 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.

| | **2010**<br>***US$'000*** | 2009<br>*US$'000* |
|---|---|---|
| Cash and deposits – gross (Note 16) | **703,437** | 1,105,662 |
| Less: Total long term borrowings (Note 20) | **(859,466)** | (876,578) |
| Net (borrowings)/cash | **(156,029)** | 229,084 |
| Shareholders' equity | **1,544,891** | 1,455,567 |
| Net book value of property, plant and equipment (Note 6) | **1,518,632** | 997,961 |
| Net (borrowings)/cash to shareholders' equity ratio | **(10)%** | 16% |
| Net (borrowings)/cash to property, plant and equipment ratio | **(10)%** | 23% |

### 3.3 Fair value estimation

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

(i) The following table presents the Group's financial assets and financial liabilities that are measured at fair value as at 31 December 2010 according to the levels of the fair value hierarchy defined in HKFRS 7: Financial Instruments: Disclosures. The levels are defined as follows:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: 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 3: Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs).

## 3 Financial Risk Management (Continued)

### 3.3 Fair value estimation (continued)

The following table presents the Group's assets and liabilities that are measured at fair value at 31 December 2010.

| | Level 1<br>*US$'000* | Level 2<br>*US$'000* | Level 3<br>*US$'000* | Total<br>*US$'000* |
|---|---|---|---|---|
| **At 31 December 2010** | | | | |
| **Assets** | | | | |
| Derivative assets at fair value through profit or loss | | | | |
| – Forward freight agreements | **3,070** | **–** | **–** | **3,070** |
| – Interest rate swap contracts | **–** | **184** | **–** | **184** |
| – Bunker swap contracts | **–** | **5,484** | **–** | **5,484** |
| Available-for-sale financial assets | | | | |
| – Equity securities | **72,176** | **–** | **2,300** | **74,476** |
| Total assets | **75,246** | **5,668** | **2,300** | **83,214** |
| **Liabilities** | | | | |
| Derivative liabilities at fair value through profit or loss | | | | |
| – Forward freight agreements | **4,268** | **–** | **–** | **4,268** |
| – Interest rate swap contracts | **–** | **5,971** | **–** | **5,971** |
| – Bunker swap contracts | **–** | **437** | **–** | **437** |
| Derivative liabilities used for hedging | | | | |
| – Interest rate swap contracts | **–** | **7,483** | **–** | **7,483** |
| – Forward foreign exchange contracts | **–** | **534** | **–** | **534** |
| Total liabilities | **4,268** | **14,425** | **–** | **18,693** |
| At 31 December 2009 | | | | |
| 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 2010.

| | Available-for-sale Financial Assets *US$'000* |
|---|---|
| **At 31 December 2010** | |
| At 1 January | **4,203** |
| Additions | **168** |
| Return of capital | **(2,071)** |
| At 31 December | **2,300** |
| At 31 December 2009 | |
| 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$0.6 million in the next year.

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

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

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

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$7.2 million or increase by US$10.6 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. The discount rate applied for the value-in-use calculation of vessels in PB RoRo is 7.1%.

## 4 Critical Accounting Estimates and Judgements (Continued)

### (iii) Impairment of vessels and vessels under construction (continued)

With all other variables held constant, if the discount rate for PB RoRo changes by 1% or if the estimation of future earnings for the uncovered periods in 2011 & 2012 changes by 10% from the management estimates, the estimated value in use of the fleet would change by approximately US$4.1 million and US$2.2 million respectively. The result would still be higher than net book value and would not result in an impairment of our vessels.

### (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$3,059,000 represents management's estimates of the most likely amount of tax expected to be paid to the taxation authorities. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the provision for income tax in the period in which such determination is made.

### (v) Classification of leases

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

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

### (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 increase/decrease by 15% from management estimates over the next 3 years, the provision for onerous contracts would remain unchanged/ increase by US$2.8 million in the next year.

## 5 Segment Information

| | Pacific Basin Dry Bulk US$'000 | PB Energy & Infrastructure Services US$'000 | PB RoRo US$'000 | All Other Segments US$'000 | Total Segments US$'000 |
|---|---|---|---|---|---|
| **For the year ended 31 December 2010** | | | | | |
| Revenue | 1,169,405 | 78,744 | 14,572 | 2,473 | 1,265,194 |
| Freight and charter-hire | 1,169,405 | 50,956 | 14,408 | – | 1,234,769 |
| Maritime management services | – | 27,788 | 164 | 2,473 | 30,425 |
| Bunkers & port disbursements | (418,308) | (4,051) | (2,085) | – | (424,444) |
| Time charter equivalent earnings | 751,097 | | | | |
| Direct costs | (592,969) | (69,559) | (10,665) | (3,381) | (676,574) |
| Bunkers & port disbursements | – | – | – | – | – |
| Charter-hire expenses for vessels | (471,711) | (1,170) | (320) | – | (473,201) |
| Vessel operating costs | (53,973) | (32,994) | (4,532) | – | (91,499) |
| Depreciation of vessels | (39,935) | (12,864) | (3,758) | – | (56,557) |
| Direct overheads | (27,350) | (22,531) | (2,055) | (3,381) | (55,317) |
| Gross profit | 158,128 | 5,134 | 1,822 | (908) | 164,176 |
| General and administrative expenses | – | – | – | – | – |
| Other income and expenses | – | (521) | (96) | (888) | (1,505) |
| Finance costs, net | (13,186) | (2,727) | (2,628) | 1,029 | (17,512) |
| Share of profits less losses of jointly controlled entities | – | 2,181 | 79 | (455) | 1,805 |
| Share of profits less losses of associates | – | 100 | (292) | – | (192) |
| Profit before taxation | 144,942 | 4,167 | (1,115) | (1,222) | 146,772 |
| Taxation | – | 726 | (6) | (1,173) | (453) |
| Profit attributable to shareholders | 144,942 | 4,893 | (1,121) | (2,395) | 146,319 |
| **At 31 December 2010** | | | | | |
| **Total assets** | 978,462 | 291,421 | 443,669 | 153,634 | 1,867,186 |
| Total assets include: | | | | | |
| Property, plant and equipment | 828,667 | 223,633 | 429,148 | 37,184 | 1,518,632 |
| – Include additions to property, plant and equipment | 250,998 | 55,308 | 195,339 | 21,851 | 523,496 |
| Interests in jointly controlled entities | – | 26,360 | 641 | 29,600 | 56,601 |
| – Include additions to interests in jointly controlled entities | – | – | 1,000 | 13,189 | 14,189 |
| Investments in associates | – | 3,442 | 656 | – | 4,098 |
| **Total liabilities** | 288,372 | 62,009 | 59,237 | 6,360 | 415,978 |
| Total liabilities include: | | | | | |
| Long term borrowings | 184,458 | 44,975 | 54,718 | – | 284,151 |

| Unallocated | | | | | |
|---|---|---|---|---|---|
| Treasury US$'000 | Others US$'000 | Total US$'000 | Reclass-ification US$'000 | Per Financial Statements US$'000 | Note |
| – | (3,380) | 1,261,814 | 6,728 | 1,268,542 | |
| – | (3,380) | 1,231,389 | 6,728 | 1,238,117 | 1 |
| – | – | 30,425 | – | 30,425 | |
| – | (8,195) | (432,639) | 432,639 | – | 2 |
| – | – | (676,574) | (432,639) | (1,109,213) | |
| – | – | – | (432,639) | (432,639) | 2 |
| – | – | (473,201) | – | (473,201) | |
| – | – | (91,499) | – | (91,499) | |
| – | – | (56,557) | – | (56,557) | |
| – | – | (55,317) | – | (55,317) | |
| – | (11,575) | 152,601 | 6,728 | 159,329 | |
| (4,936) | (8,009) | (12,945) | – | (12,945) | 3 |
| (651) | (3,129) | (5,285) | (6,728) | (12,013) | 1, 4 |
| (12,880) | (801) | (31,193) | – | (31,193) | 5 |
| – | – | 1,805 | – | 1,805 | |
| – | – | (192) | – | (192) | |
| (18,467) | (23,514) | 104,791 | – | 104,791 | |
| – | – | (453) | – | (453) | |
| (18,467) | (23,514) | 104,338 | – | 104,338 | |
| 679,940 | 8,262 | 2,555,388 | – | 2,555,388 | 1, 2 |
| – | – | 1,518,632 | – | 1,518,632 | |
| – | 642 | 524,138 | – | 524,138 | |
| – | (476) | 56,125 | – | 56,125 | |
| – | – | 14,189 | – | 14,189 | |
| – | – | 4,098 | – | 4,098 | |
| 575,826 | 18,693 | 1,010,497 | – | 1,010,497 | 1, 2 |
| 575,315 | – | 859,466 | – | 859,466 | |

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 resources and assessing performance. The reportable operating segments on this page are consistent with the way in which information is presented to the division heads and the Board, which in 2010 has changed slightly from previous year to better reflect how the Group's businesses are managed.

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.

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, preclude 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 *US$'000* | PB Energy & Infrastructure Services *US$'000* | PB RoRo *US$'000* | All Other Segments *US$'000* | Total Segments *US$'000* |
|---|---|---|---|---|---|
| For the year ended 31 December 2009 | | | | | |
| Revenue | 904,481 | 68,414 | 3,271 | 2,683 | 978,849 |
| Freight and charter-hire | 904,481 | 48,842 | 3,271 | – | 956,594 |
| Maritime management services | – | 19,572 | – | 2,683 | 22,255 |
| Bunkers & port disbursements | (312,543) | (1,723) | – | – | (314,266) |
| Time charter equivalent earnings | 591,938 | | | | |
| Direct costs | (439,510) | (55,788) | (2,413) | (5,537) | (503,248) |
| Bunkers & port disbursements | – | – | – | – | – |
| Charter-hire expenses for vessels | (337,899) | (2,482) | – | – | (340,381) |
| Vessel operating costs | (45,549) | (24,575) | (742) | – | (70,866) |
| Depreciation of vessels | (30,546) | (8,021) | (894) | – | (39,461) |
| Direct overheads | (25,516) | (20,710) | (777) | (5,537) | (52,540) |
| Gross profit | 152,428 | 10,903 | 858 | (2,854) | 161,335 |
| General and administrative expenses | – | – | – | – | – |
| Other income and expenses | – | (8,578) | – | – | (8,578) |
| Finance costs, net | (14,175) | (1,168) | (801) | 1,239 | (14,905) |
| Share of profits less losses of jointly controlled entities | – | 8,239 | – | (2,329) | 5,910 |
| Share of losses of associates | – | (103) | – | – | (103) |
| Profit before taxation | 138,253 | 9,293 | 57 | (3,944) | 143,659 |
| Taxation | – | (1,072) | (2) | (649) | (1,723) |
| Profit attributable to shareholders | 138,253 | 8,221 | 55 | (4,593) | 141,936 |
| At 31 December 2009 | | | | | |
| **Total assets** | 767,123 | 271,006 | 258,569 | 110,220 | 1,406,918 |
| Total assets include: | | | | | |
| Property, plant and equipment | 610,588 | 160,147 | 211,318 | 15,908 | 997,961 |
| – Include additions to property, plant and equipment | 64,674 | 63,139 | 144,235 | 2,843 | 274,891 |
| Interests in jointly controlled entities | – | 33,382 | – | 16,233 | 49,615 |
| Investment in associates | – | 3,249 | – | – | 3,249 |
| **Total liabilities** | 294,881 | 57,007 | 66,467 | 5,255 | 423,610 |
| Total liabilities include: | | | | | |
| Long term borrowings | 199,386 | 40,773 | 64,589 | – | 304,748 |

| Unallocated Treasury US$'000 | Unallocated Others US$'000 | Total US$'000 | Reclass-ification US$'000 | Per Financial Statements US$'000 | Note |
|---|---|---|---|---|---|
| – | (54,026) | 924,823 | 25,654 | 950,477 | |
| – | (54,026) | 902,568 | 25,654 | 928,222 | 1 |
| – | – | 22,255 | – | 22,255 | |
| – | 46,566 | (267,700) | 267,700 | – | 2 |
| – | 27,200 | (476,048) | (321,633) | (797,681) | |
| – | – | – | (267,700) | (267,700) | 2 |
| – | 27,200 | (313,181) | (53,933) | (367,114) | |
| – | – | (70,866) | – | (70,866) | |
| – | – | (39,461) | – | (39,461) | |
| – | – | (52,540) | – | (52,540) | |
| – | 19,740 | 181,075 | (28,279) | 152,796 | |
| – | (12,292) | (12,292) | – | (12,292) | 3 |
| 1,547 | (29,573) | (36,604) | 28,279 | (8,325) | 1, 4 |
| (15,376) | 2,960 | (27,321) | – | (27,321) | 5 |
| – | 1,336 | 7,246 | – | 7,246 | |
| – | – | (103) | – | (103) | |
| (13,829) | (17,829) | 112,001 | – | 112,001 | |
| – | – | (1,723) | – | (1,723) | |
| (13,829) | (17,829) | 110,278 | – | 110,278 | |
| 1,036,035 | 26,940 | 2,469,893 | – | 2,469,893 | 1, 2 |
| – | – | 997,961 | – | 997,961 | |
| – | – | 274,891 | – | 274,891 | |
| – | – | 49,615 | – | 49,615 | |
| – | – | 3,249 | – | 3,249 | |
| 572,164 | 18,552 | 1,014,326 | – | 1,014,326 | 1, 2 |
| 571,830 | – | 876,578 | – | 876,578 | |

Note 1. Net unrealised forward freight agreements benefits and expenses are under "Unallocated Others". Net realised benefits and expenses are under "Pacific Basin Dry Bulk". For the presentation of the financial statements, net realised and unrealised forward freight agreement benefits and expenses are reclassified to other income and other expenses. The related derivative assets and liabilities are also under "Unallocated Others".

Note 2. Net unrealised bunker swap contract benefits and expenses are under "Unallocated Others". Net realised benefits and expenses are under "Pacific Basin Dry Bulk". For the presentation of the financial statements, bunkers & port disbursements are reclassified to direct costs. The related derivative assets and liabilities are also under "Unallocated Others".

Note 3. "Others" represents corporate overheads.

Note 4. "Treasury" represents the gains and losses on repurchase and cancellation of the Group's convertible bonds.

Note 5. "Others" represent net unrealised interest rate swap contract benefits and expenses.

## 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 2010 | 930,888 | 213,654 | 3,134 | 2,942 | 4,358 | 278 | 1,155,254 |
| Additions | 170,022 | 353,473 | – | 191 | 452 | – | 524,138 |
| Write off | (7,249) | – | – | – | – | – | (7,249) |
| Disposals | – | – | – | (19) | (332) | (70) | (421) |
| Exchange differences | 14,074 | (5,203) | 14 | 401 | 464 | 4 | 9,754 |
| Reclassification | 266,020 | (266,020) | – | – | – | – | – |
| Transfer from other non-current asset | 7,110 | 40,035 | – | – | – | – | 47,145 |
| **At 31 December 2010** | 1,380,865 | 335,939 | 3,148 | 3,515 | 4,942 | 212 | 1,728,621 |
| Accumulated depreciation and impairment | | | | | | | |
| At 1 January 2010 | 129,694 | 22,500 | 115 | 2,115 | 2,732 | 137 | 157,293 |
| Charge for the year | 56,557 | – | 88 | 403 | 852 | 43 | 57,943 |
| Write off | (7,249) | – | – | – | – | – | (7,249) |
| Disposals | – | – | – | (16) | (223) | (63) | (302) |
| Exchange differences | 1,689 | – | 2 | 181 | 428 | 4 | 2,304 |
| **At 31 December 2010** | 180,691 | 22,500 | 205 | 2,683 | 3,789 | 121 | 209,989 |
| Net book value | | | | | | | |
| **At 31 December 2010** | 1,200,174 | 313,439 | 2,943 | 832 | 1,153 | 91 | 1,518,632 |

As at 31 December 2010, the aggregate cost and accumulated depreciation of the vessel component costs amounted to US$39,721,000 (2009: US$26,566,000) and US$16,637,000 (2009: US$10,356,000) respectively and were included in the vessels and vessel component costs.

As at 31 December 2010, the aggregate cost and accumulated depreciation of the vessels and vessel component costs held by the Group under finance leases amounted to US$240,847,000 (2009: US$240,173,000) and US$68,218,000 (2009: US$58,681,000) respectively.

As at 31 December 2010, certain owned vessels of net book value of US$493,624,000 (2009: US$479,884,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 20(b)(i)).

As at 31 December 2010, vessels under construction includes an amount of US$88,701,000 (2009: US$11,182,000) paid by the Group in relation to vessels whose construction work had not yet commenced.

When assessing the fair values of the vessels and vessels under construction, the Group uses a range of potential assumptions using reasonable expectations of the market, and applicable discount rates for each segment for 2010 as follows: for Pacific Basin Dry Bulk 10.6% (2009: 10.5%), for PB Towage 10.6% (2009: 10.5%) and for PB RoRo 7.1% (2009: 8.3%).

## 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 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 vessels within the PB RoRo segment. Our six RoRo vessels 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-year 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 expectations for market developments and general inflation. The discount rate applied to the cash flow projection in 2009 was based on the estimated 8.3% per annum weighted average cost of capital for the PB RoRo segment.

## 7 Investment Properties

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| **At 1 January** | **2,600** | – |
| Additions | **–** | 292 |
| Transfer from property, plant and equipment (Note 6) | **–** | 2,395 |
| Depreciation | **(61)** | (87) |
| Exchange difference | **125** | – |
| **At 31 December** | **2,664** | 2,600 |

The investment properties were valued at 31 December 2010 by an independent qualified valuer on the basis of market value. The fair value of the investment properties was approximately US$3,772,000 (2009: 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. The land use rights related to "Building" in Note 6 & "Investment Properties" in Note 7.

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| **At 1 January** | **3,864** | 3,035 |
| Additions | **–** | 888 |
| Amortisation | **(108)** | (59) |
| Exchange difference | **59** | – |
| **At 31 December** | **3,815** | 3,864 |

## 9 Goodwill

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| **At 1 January/31 December** | **25,256** | 25,256 |

The recoverable amount of Pacific Basin Dry Bulk 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-year outlook. Key assumptions were based on past performance, management's expectations on market development and general inflation. Cash flows beyond the three year 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 10.6% reflecting the Group's cost of capital.

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

## 10 Subsidiaries

| | Company | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| **Non-current assets** | | |
| Unlisted investments, at cost | **227,736** | 223,931 |
| **Current assets** | | |
| Amounts due from subsidiaries | **1,584,210** | 1,503,278 |
| **Current liabilities** | | |
| Amount due to subsidiaries | **(320,198)** | (312,814) |

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 2010 are set out in Note 37.

## 11 Interests in Jointly Controlled Entities

| | Group 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Share of net assets | **50,987** | 34,663 |
| Goodwill | **–** | 7,233 |
| Equity loans to jointly controlled entities | **5,138** | 7,719 |
| | **56,125** | 49,615 |

Due to the scale down of operations in Fujairah Bulk Shipping L.L.C ("FBSL"), a total of US$19.0 million was charged as an impairment in other expenses (Note 24) representing (i) goodwill of US$7.2 million included as interests in jointly controlled entities, and (ii) other non-current asset of US$11.8 million (Note 17). This was included in the "Unallocated Others" segment. The recoverable amount of the FBSL investment was determined based on a value-in-use calculation with a discount rate of 10.6%.

The equity 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 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Assets | | |
| Non-current assets | **66,569** | 71,075 |
| Current assets | **51,629** | 52,827 |
| | **118,198** | 123,902 |
| Liabilities | | |
| Long term liabilities | **(18,798)** | (52,696) |
| Current liabilities | **(48,413)** | (36,543) |
| | **(67,211)** | (89,239) |
| Net assets | **50,987** | 34,663 |
| Revenue | **124,102** | 110,196 |
| Expenses | **(122,297)** | (102,950) |
| Share of profits less losses | **1,805** | 7,246 |
| Proportionate commitments in jointly controlled entities | **–** | – |

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 held indirectly by the Company at 31 December 2010 are as follows:

| Name | Place of incorporation/ operation | Issued and fully paid up share capital | Interest in ownership/ voting power/ profit sharing | Principal activities |
|---|---|---|---|---|
| PB Energy & Infrastructure Services: | | | | |
| 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 | New Zealand | 100 shares of NZD1 each | 50%/50%/50% | Bunker barge owning and 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 | PRC | RMB272,727,273 (registered capital) | 45%/50%/45% | Terminal operation |
| Offshore Marine Services Alliance Pty Ltd ("OMSA") | Australia | 300 shares of AUD1 each | $33^1/_3$%/$33^1/_3$%/$33^1/_3$% | Towage logistic services |
| PB RoRo: | | | | |
| Isis Shipping Limited | England and Wales | 150 shares of GBP1 each | 50%/50%/50% | Provision of ship management services |
| Isis RoRo Management Limited | England and Wales | 1 share of GBP1 each | 50%/50%/50% | Provision of ship management services |
| Meridian Marine Management Limited | England and Wales | 1,002 shares of GBP1 each | 50%/50%/50% | Provision of ship management services |

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

## 12 Investments in Associates

| | Group 2010 US$'000 | Group 2009 US$'000 |
|---|---|---|
| Share of net assets | **2,575** | 1,826 |
| Equity loan to an associate | **1,523** | 1,423 |
| | **4,098** | 3,249 |

The equity 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 2010 US$'000 | Group 2009 US$'000 |
|---|---|---|
| Assets | | |
| Non-current assets | **3,447** | 3,268 |
| Current assets | **886** | 252 |
| | **4,333** | 3,520 |
| Liabilities | | |
| Long term liabilities | **(76)** | – |
| Current liabilities | **(1,682)** | (1,694) |
| | **(1,758)** | (1,694) |
| Net assets | **2,575** | 1,826 |
| Revenue | **770** | 574 |
| Expenses | **(962)** | (677) |
| Share of profits less losses | **(192)** | (103) |

Details of the principal associates of the Group at 31 December 2010 are as follows:

| Name | Place of incorporation/ operation | Issued and fully paid up share capital | Interest in ownership/ voting power/ profit sharing | Principal activities |
|---|---|---|---|---|
| PB Energy & Infrastructure Services: | | | | |
| Muchalat Industries Limited | BC, Canada | 120 Class A common shares of CAD1 each | $33^1/_3$%/$33^1/_3$%/$33^1/_3$% | Terminal operation |
| PB RoRo: | | | | |
| NGB Express Lines, S.A.P.I. de C.V. | Mexico | 9,959,889 Series II, C less B shares of MXN1.00 | 27.37%/28.57%/27.37% | Provision of trailer freight service |

## 13 Available-for-sale Financial Assets

| | Group 2010 US$'000 | Group 2009 US$'000 |
|---|---|---|
| Listed equity securities, at fair value (Note a) | **72,176** | 57,813 |
| Unlisted equity securities, at fair value (Note b) | **2,300** | 4,203 |
| | **74,476** | 62,016 |

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. Movements in the fair value are described in note 3.3 under Level 3 investments.

## 14 Derivative Assets and Liabilities

| | Group 2010 US$'000 | Group 2009 US$'000 |
|---|---|---|
| **Derivative assets** | | |
| Cash flow hedges | | |
| Interest rate swap contracts (Note a(i)) | **184** | 1,055 |
| Derivative assets that do not qualify for hedge accounting | | |
| Bunker swap contracts (Note b) | **5,484** | 14,166 |
| Forward freight agreements (Note c) | **3,070** | 11,994 |
| Total | **8,738** | 27,215 |
| Less: non-current portion of | | |
| Interest rate swap contracts (Note a(i)) | **(184)** | (1,055) |
| Bunker swap contracts (Note b) | **(1,488)** | (3,300) |
| Forward freight agreements (Note c) | **–** | (2,524) |
| Non-current portion | **(1,672)** | (6,879) |
| Current portion | **7,066** | 20,336 |
| **Derivative liabilities** | | |
| Cash flow hedges | | |
| Forward foreign exchange contracts (Note d) | **534** | 1,688 |
| Interest rate swap contracts (Note a(i)) | **7,483** | 2,647 |
| Derivative liabilities that do not qualify for hedge accounting | | |
| Interest rate swap contracts (Note a(ii)) | **5,971** | 5,170 |
| Bunker swap contracts (Note b) | **437** | 923 |
| Forward freight agreements (Note c) | **4,268** | 9,812 |
| Total | **18,693** | 20,240 |
| Less: non-current portion of | | |
| Interest rate swap contracts (Note a(i)) | **(7,483)** | (2,647) |
| Interest rate swap contracts (Note a(ii)) | **(5,971)** | (5,170) |
| Forward foreign exchange contracts (Note d) | **(534)** | (541) |
| Bunker swap contracts (Note b) | **(35)** | (279) |
| Forward freight agreements (Note c) | **(698)** | (1,098) |
| Non-current portion | **(14,721)** | (9,735) |
| Current portion | **3,972** | 10,505 |

## 14 Derivative Assets and Liabilities (Continued)

### (a) Interest rate swap contracts

(i) The Group has bank borrowings exposed to floating interest rates. In order to hedge against the fluctuations in interest rates related to the bank borrowings, the Group entered into interest rate swap contracts with banks to manage exposure to 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 amount of A$19 million with the 3-month floating rate BBSW swapped to a fixed rate of approximately 5.2% per annum. This contract expires in June 2013; and

- Effective from 4 May 2010, a notional amount of A$9 million with 3-month floating rate BBSW swapped to a fixed rate of approximately 4.8% per annum. This contract expires in May 2012.

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 the 6-month floating rate LIBOR subsequently drop below 6.0%. This contract expires in January 2017.

### (b) 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 2010, the Group had outstanding bunker swap contracts to buy approximately 133,000 (2009: 169,600) metric tonnes of bunkers. These contracts expire through June 2016 (2009: December 2012).

### (c) 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 2010, the Group had outstanding forward freight agreements as follows:

(i) buy approximately 810 (2009: 1,400) days of the Baltic Supramax Index at prices of US$16,000 to US$21,750 per day (2009: US$12,800 to US$22,500), which expire through December 2011 (2009: December 2010);

(ii) sell approximately 1,050 (2009: 2,440) days of the Baltic Supramax Index at prices of US$12,000 to US$21,500 per day (2009: US$11,100 to US$31,300), which expire through December 2012 (2009: December 2012);

(iii) buy approximately 360 (2009: 90) days of Baltic Handysize Index at prices of US$11,750 to US$14,000 (2009: US$13,300) per day, which expire through December 2011 (2009: March 2010); and

(iv) sell approximately 270 (2009: 910) days of the Baltic Handysize Index at prices of US$14,000 to US$15,000 per day (2009: US$8,100 to US$11,000), which expire through December 2011 (2009: December 2010).

## 14 Derivative Assets and Liabilities (Continued)

### (d) Forward foreign exchange contracts

The Group has 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 financed newbuilding 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 2010, the Group had outstanding forward foreign exchange contracts with banks to buy approximately DKK 307.9 million (2009: DKK 335.9 million) and simultaneously sell approximately EUR 41.4 million (2009: EUR 45.1 million), which expire through September 2021, related to the long term bank borrowings denominated in Danish Kroner.

## 15 Trade and Other Receivables

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| **Non-current receivables** | | |
| Finance lease receivables – gross | **7,706** | 10,015 |
| Less: unearned finance lease income | **(914)** | (1,783) |
| Finance lease receivables – net (Note a) | **6,792** | 8,232 |
| **Current receivables** | | |
| Finance lease receivables – gross | **2,309** | 2,309 |
| Less: unearned finance lease income | **(869)** | (1,025) |
| Finance lease receivables – net (Note a) | **1,440** | 1,284 |
| Trade receivables – gross | **31,052** | 28,277 |
| Less: provision for impairment | **(3,003)** | (1,548) |
| Trade receivables – net (Note b) | **28,049** | 26,729 |
| Other receivables | **46,487** | 38,695 |
| Prepayments | **16,548** | 16,147 |
| Amounts due from jointly controlled entities (Note c) | **12,785** | 174 |
| Loan to a jointly controlled entity (Note c) | **6,135** | 7,449 |
| | **111,444** | 90,478 |

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

## 15 Trade and Other Receivables (Continued)

(a) At 31 December 2010 and 2009, 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% (2009: approximately 11.3%).

The gross receivables, unearned finance lease income and the net receivables from a finance lease as at 31 December 2010 are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **US$'000** | *US$'000* |
| Gross receivables from finance lease | | |
| Not later than one year | **2,308** | 2,309 |
| Later than one year but not later than two years | **2,315** | 2,309 |
| Later than two years but not later than five years | **5,392** | 7,706 |
| | **10,015** | 12,324 |
| Less: unearned future finance lease income | **(1,783)** | (2,808) |
| | **8,232** | 9,516 |
| Net receivables from finance lease | | |
| Not later than one year | **1,440** | 1,284 |
| Later than one year but not later than two years | **1,618** | 1,439 |
| Later than two years but not later than five years | **5,174** | 6,793 |
| | **8,232** | 9,516 |

(b) At 31 December 2010, the ageing analysis of net trade receivables, which is past due but not considered impaired, is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **US$'000** | *US$'000* |
| Less than 30 days | **19,536** | 20,258 |
| 31-60 days | **4,280** | 3,395 |
| 61-90 days | **1,164** | 623 |
| Over 90 days | **3,069** | 2,453 |
| | **28,049** | 26,729 |

## 15 Trade and Other Receivables (Continued)

(b) (continued)

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **US$'000** | *US$'000* |
| **At 1 January** | **1,548** | 1,996 |
| Provision for receivable impairment | **1,659** | 1,340 |
| Receivable written off during the year as uncollectible | **(204)** | (603) |
| Unused amounts reversed | **-** | (1,185) |
| **At 31 December** | **3,003** | 1,548 |

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 internationally dispersed customers.

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

(d) As at 31 December 2010 and 2009, 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 | |
|---|---|---|---|---|
| | **2010** | 2009 | **2010** | 2009 |
| | ***US$'000*** | *US$'000* | ***US$'000*** | *US$'000* |
| Cash at bank and on hand | **226,191** | 408,647 | **13** | 13 |
| Short term bank deposits | **427,246** | 647,015 | **–** | – |
| Notes receivable | **50,000** | 50,000 | **–** | – |
| Cash and deposits – gross | **703,437** | 1,105,662 | **13** | 13 |
| Restricted bank deposits included in non-current assets | **(10,280)** | (40,084) | **–** | – |
| Restricted bank deposits included in current assets | **(3,421)** | (16,483) | **–** | – |
| Restricted cash and deposits (Note i) | **(13,701)** | (56,567) | **–** | – |
| Cash and deposits – net | **689,736** | 1,049,095 | **13** | 13 |
| Notes receivable (Note ii) | **(50,000)** | (50,000) | **–** | – |
| Cash and cash equivalents | **639,736** | 999,095 | **13** | 13 |
| Effective interest rate of bank deposits | **1.55%** | 1.00% | **–** | – |
| Average remaining maturity of bank deposits | **100 days** | 40 days | **–** | – |

Note:

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

(ii) The notes receivable carries interest of fixed USD 6-month LIBOR plus a margin of 0.85% (2009: 0.85%) and matures through May 2011 (2009: May 2010).

Cash and deposits are mainly denominated in United States Dollars.

## 17 Other Non-current Assets

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **US$'000** | *US$'000* |
| Prepayments for acquisition of vessels | – | 47,145 |
| Other prepayments | – | 12,742 |
| | – | 59,887 |

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

## 18 Inventories

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Bunkers | **36,246** | 31,211 |
| Lubricating oil | **3,665** | 2,647 |
| | **39,911** | 33,858 |

## 19 Trade and Other Payables

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Trade payables (Note a) | **33,676** | 29,949 |
| Accruals and other payables | **56,471** | 52,063 |
| Receipts in advance | **27,215** | 27,056 |
| Amounts due to jointly controlled entities (unsecured, non-interest bearing and repayable on demand) | **9,886** | 2,672 |
| | **127,248** | 111,740 |

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

(a) At 31 December 2010, the ageing analysis of trade payables is as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | **US$'000** | *US$'000* |
| Less than 30 days | **27,414** | 22,806 |
| 31-60 days | **859** | 2,024 |
| 61-90 days | **272** | 314 |
| Over 90 days | **5,131** | 4,805 |
| | **33,676** | 29,949 |

## 20 Long Term Borrowings

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| **Non-current** | | |
| Finance lease liabilities (Note a) | **168,482** | 184,458 |
| Secured bank loans (Note b) | **325,646** | 339,382 |
| Convertible bonds (Note c(ii)) | **199,642** | 298,010 |
| | **693,770** | 821,850 |
| **Current** | | |
| Finance lease liabilities (Note a) | **15,976** | 14,928 |
| Secured bank loans (Note b) | **43,350** | 39,800 |
| Convertible bonds (Note c(i)) | **106,370** | – |
| | **165,696** | 54,728 |
| Total long term borrowings | **859,466** | 876,578 |

Long term borrowings are mainly denominated in United States Dollars.

(a) At 31 December 2010, 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 lease periods and range from approximately 6.5% to 7.0% (2009: approximately 6.5% to 7.0%).

The fair value of the finance lease liabilities as at 31 December 2010 amounted to US$191.7 million.

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2010 are as follows:

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Gross liabilities under finance leases | | |
| Not later than one year | **28,105** | 28,114 |
| Later than one year but not later than two years | **28,096** | 28,105 |
| Later than two years but not later than five years | **130,899** | 84,256 |
| Later than five years | **49,839** | 124,578 |
| | **236,939** | 265,053 |
| Less: future finance charges on finance leases | **(52,481)** | (65,667) |
| | **184,458** | 199,386 |

## 20 Long Term Borrowings (Continued)

(a) (continued)

| | Group 2010 US$'000 | Group 2009 US$'000 |
|---|---|---|
| Net liabilities under finance leases | | |
| Not later than one year | **15,976** | 14,928 |
| Later than one year but not later than two years | **17,049** | 15,976 |
| Later than two years but not later than five years | **106,425** | 54,924 |
| Later than five years | **45,008** | 113,558 |
| | **184,458** | 199,386 |

(b) The bank loans as at 31 December 2010 are secured, inter alia, by the following:

(i) Mortgages over certain owned vessels of net book value totalling US$493,624,000 (2009: US$479,884,000) (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$5,323,000 (2009: US$10,348,000).

The average effective interest rate of bank loans is 2.5% (2009: 2.2%).

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

| | Group 2010 US$'000 | Group 2009 US$'000 |
|---|---|---|
| Within one year | **43,350** | 39,800 |
| In the second year | **42,650** | 39,100 |
| In the third to fifth year | **227,531** | 143,832 |
| After the fifth year | **55,465** | 156,450 |
| | **368,996** | 379,182 |

## 20 Long Term Borrowings (Continued)

(c) Convertible bonds

(i) 3.3% coupon convertible bonds due 2013

On 20 December 2007, the Group issued 3.3% coupon convertible bonds with an aggregate principal amount of US$390 million.

During the year, 3.3% coupon convertible bonds with nominal value of US$208.8 million (2009: US$10.3 million) were repurchased and cancelled at a consideration of US$210.8 million (2009: US$8.6 million) including commission and accrued interest. Losses of US$0.7 million (2009: gains of US$1.5 million) (Note 24 and Note 25) and gains of US$6.5 million (2009: gains of US$0.3 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 for the 3.3% coupon convertible bonds at 31 December 2010 was US$105.2 million.

Following the exercise of the put option by bondholders on 31 December 2010, 3.3% coupon convertible bonds with an aggregate nominal value of US$80.9 million were redeemed and cancelled on 1 February 2011 at 100% of their principal amount. The Group exercised the call option on 1 February 2011 to redeem the remaining outstanding bonds with nominal value of US$24.3 million. These remaining outstanding bonds will have been redeemed and cancelled on 4 March 2011, thereby cancelling the 3.3% coupon convertible bonds in full. As a result, the aggregate debt element of the 2013 convertible bonds outstanding at 31 December 2010 was shown as falling due within the year.

The effective interest rate of the 3.3% coupon convertible bonds was 5.7%.

(ii) 1.75% coupon convertible bonds due 2016

On 12 April 2010, the Group issued 1.75% coupon convertible bonds with an aggregate principal amount of US$230 million. The bonds mature on 12 April 2016 at their nominal value of US$230 million or can be converted into shares at the holder's option at a conversion price which is currently HK$7.79 per share on or after 12 January 2011. However, from 12 January 2011 and until 11 January 2014, conversion can only take place if the closing price of the Company's shares is at least at a 20% premium to the conversion price then in effect for five consecutive trading days and after 11 January 2014 conversion can take place at no premium. On 12 April 2014, 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 12 April 2014 if the closing price of the Company's shares is at least at a 30% premium to the conversion price then in effect for thirty consecutive trading days.

The effective interest rate of the 1.75% coupon convertible bonds is 4.7%.

## 21 Provision for Onerous Contracts

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| **At 1 January** | **2,031** | 53,932 |
| Charge for the year | **–** | 2,031 |
| Write-back for the year | **–** | (27,199) |
| Utilised during the year | **–** | (26,733) |
| **At 31 December** | **2,031** | 2,031 |
| **Analysis of provision** | | |
| Current | **2,031** | – |
| Non-current | **–** | 2,031 |
| | **2,031** | 2,031 |

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 and the value of future charter payments that the Group is presently obligated to make.

## 22 Share Capital

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **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** | **1,927,078,305** | **192,708** | 1,747,136,295 | 174,714 |
| Shares issued upon exercise of share options (Note a) | **778,000** | **78** | – | – |
| Shares purchased by trustee of the LTIS (Note b) | **(1,698,000)** | **(1,294)** | (2,943,000) | (1,296) |
| Shares transferred to employees upon granting of restricted share awards (Note b) | **4,192,000** | **1,543** | 3,335,000 | 1,336 |
| Shares issued and transferred to employees upon granting of restricted share awards (Note b) | **2,254,000** | **225** | 6,805,000 | 680 |
| Shares transferred back to trustee upon lapse of restricted share awards (Note b) | **(963,000)** | **(96)** | (1,986,000) | (199) |
| Shares issued upon placing of new shares | **–** | **–** | 174,731,010 | 17,473 |
| **At 31 December** | **1,931,641,305** | **193,164** | 1,927,078,305 | 192,708 |

## 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:

| | **2010** | | 2009 | |
|---|---|---|---|---|
| | **Average exercise price per share** *HK$* | ***'000*** | Average exercise price per share *HK$* | *'000* |
| **At 1 January** | **2.50** | **1,178** | 2.50 | 1,178 |
| Exercised | **2.50** | **(778)** | – | – |
| **At 31 December** | **2.50** | **400** | 2.50 | 1,178 |

Note: In 2010, the related weighted average price of the Company's shares at the time of exercise was HK$5.36 per share.

At 31 December 2010 and 2009, 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 6,446,000 (2009: 10,140,000) restricted share awards were granted and transferred to certain employees on 14 May 2010, of which:

(i) 4,192,000 (2009: 3,335,000) shares were purchased by the trustee of the LTIS on the Stock Exchange at a total cost of US$1,543,000 (2009: US$1,336,000); and

(ii) 2,254,000 (2009: 6,805,000) 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$1,543,000 and US$225,000 (2009: US$1,336,000 and US$680,000) respectively. 963,000 (2009: 1,986,000) shares amounting to US$96,000 (2009: US$199,000) formerly transferred to certain employees lapsed. At 31 December 2010, there remained 236,814 (2009: 1,767,814) shares held by the trustee, amounting to US$24,000 (2009: US$177,000) as a debit to share capital.

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

| **Date of grant** | **Number of unvested share awards** | **Vesting periods** |
|---|---|---|
| 9 March 2006 | 292,500 | on 1 March 2011 |
| 15 March 2006 | 40,000 | on 1 March 2011 |
| 21 July 2006 | 40,000 | on 23 August 2011 |
| 19 September 2006 | 500,000 | on 4 September 2011 |
| 1 April 2008 | 77,000 | on 1 April 2011 |
| 5 August 2008 | 1,776,000 | 117,000, 1,626,000 and 33,000 shares on 2 July 2011, 14 July 2011 and 24 July 2011 respectively |
| 9 June 2009 | 7,771,000 | 494,000 and 7,277,000 shares on 14 July 2011 and 2012 respectively |
| 14 May 2010 | 6,334,000 | 254,000, 254,000 and 5,826,000 shares on 14 July 2011, 2012 and 2013 respectively |
| | 16,830,500 | |

## 22 Share Capital (Continued)

### (b) Restricted share awards (continued)

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

| | 2010<br>'000 | 2009<br>'000 |
|---|---|---|
| **At 1 January** | **17,286** | 14,490 |
| Granted | **6,446** | 10,140 |
| Vested | **(5,938)** | (5,358) |
| Lapsed | **(963)** | (1,986) |
| **At 31 December** | **16,831** | 17,286 |

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

## 23 Reserves

| | Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Other reserves | | | | | | | | | |
| | Share[1] premium US$'000 | Merger[2] reserve US$'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 2010 | 586,741 | (56,606) | 27,180 | 8,257 | 13,838 | 20,121 | 3,989 | 603,520 | 659,339 | 1,262,859 |
| Currency translation differences | - | - | - | - | - | - | 8,871 | 8,871 | - | 8,871 |
| Cash flow hedges | | | | | | | | | | |
| – fair value gains | - | - | - | - | (2,543) | - | - | (2,543) | - | (2,543) |
| – transferred to property, plant and equipment | - | - | - | - | (15,431) | - | - | (15,431) | - | (15,431) |
| – transferred to finance costs in consolidated income statement | - | - | - | - | (3,698) | - | - | (3,698) | - | (3,698) |
| Fair value gains on available-for-sale financial assets | - | - | - | - | - | 29,320 | - | 29,320 | - | 29,320 |
| Release of investment valuation reserve upon disposal of available-for-sale financial assets | - | - | - | - | - | (5,441) | - | (5,441) | - | (5,441) |
| Derecognition of the equity component upon repurchase and cancellation of convertible bonds (Note 20(c)(i)) | - | - | (18,073) | - | - | - | - | (18,073) | 6,505 | (11,568) |
| Share issued upon exercise of share options | 255 | - | - | (82) | - | - | - | 173 | - | 173 |
| Share fully vested | 7,731 | - | - | (8,052) | - | - | - | (321) | 321 | - |
| Shares transferred upon granting and lapse of restricted share awards (Note 22(b)) | - | - | - | (1,672) | - | - | - | (1,672) | - | (1,672) |
| Equity component of convertible bonds issued | - | - | 32,302 | - | - | - | - | 32,302 | - | 32,302 |
| Profit attributable to shareholders | - | - | - | - | - | - | - | - | 104,338 | 104,338 |
| Share-based compensation (Note 26) | - | - | - | 3,911 | - | - | - | 3,911 | - | 3,911 |
| Dividends paid (Note 30) | - | - | - | - | - | - | - | - | (49,694) | (49,694) |
| At 31 December 2010 | 594,727 | (56,606) | 41,409 | 2,362 | (7,834) | 44,000 | 12,860 | 630,918 | 720,809 | 1,351,727 |
| Representing: | | | | | | | | | | |
| 2010 Proposed final dividend | | | | | | | | | 40,950 | |
| Others | | | | | | | | | 679,859 | |
| Retained profit at 31 December 2010 | | | | | | | | | 720,809 | |

## 23 Reserves (Continued)

| | Group | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Other reserves | | | | | | | | | |
| | Share[(1)] premium US$'000 | Merger[(2)] reserve US$'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 |
| Derecognition of the equity component upon repurchase and cancellation of convertible bonds (Note 20(c)(i)) | – | – | (887) | – | – | – | – | (887) | 325 | (562) |
| 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 | 79,581 | – | – | – | – | – | – | 79,581 | – | 79,581 |
| 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 | |

(1) Share premium mainly represents the net issuance proceeds in excess of the nominal value of shares issued credited to share capital.

(2) Merger reserve of the Group represents the difference between the nominal value of the shares of subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the transfer of PB Vessels Holding Limited and its subsidiaries into the Company through an exchange of shares prior to the listing of the shares of the Company on the Stock Exchange in 2004.

## 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 2010** | 586,741 | 8,257 | 594,998 | 626,510 | 1,221,508 |
| Shares issued upon exercise of share options | 255 | (82) | 173 | – | 173 |
| Share fully vested | 7,731 | (8,052) | (321) | 321 | – |
| Shares transferred upon granting and lapse of restricted share awards (Note 22(b)) | – | (1,672) | (1,672) | – | (1,672) |
| Share-based compensation (Note 26) | – | 3,911 | 3,911 | – | 3,911 |
| Profit attributable to shareholders (Note 29) | – | – | – | 123,895 | 123,895 |
| Dividends paid (Note 30) | – | – | – | (49,694) | (49,694) |
| **At 31 December 2010** | 594,727 | 2,362 | 597,089 | 701,032 | 1,298,121 |
| Representing: | | | | | |
| 2010 Proposed final dividend | | | | 40,950 | |
| Others | | | | 660,082 | |
| Retained profits as at 31 December 2010 | | | | 701,032 | |
| 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 | 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 |

## 24 Expenses by Nature

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Amortisation of land use rights | **108** | 59 |
| Amounts payable to other pool members | **–** | (47) |
| Auditors' remuneration | | |
| – audit | **1,491** | 1,440 |
| – non-audit | **718** | 329 |
| Bunkers consumed | **263,380** | 178,029 |
| Depreciation | | |
| – owned vessels | **45,082** | 28,152 |
| – leased vessels | **11,475** | 11,309 |
| – investment properties | **61** | 87 |
| – other owned property, plant and equipment | **1,386** | 1,371 |
| Employee benefit expenses including Directors' emoluments (Note 26) | **41,505** | 43,782 |
| Losses on disposal of property, plant and equipment | **–** | 2,522 |
| Losses on forward freight agreements | **36,559** | 80,651 |
| Losses on repurchase and cancellation of convertible bonds | **651** | – |
| Lubricating oil consumed | **4,920** | 4,136 |
| Net exchange losses | **5,540** | 746 |
| Net losses/(gains) on bunker swap contracts | **2,200** | (45,670) |
| Operating lease expenses | | |
| – vessels | **473,201** | 367,114 |
| – land and buildings | **3,332** | 3,474 |
| Port disbursements and other voyage costs | **166,437** | 134,912 |
| Provision for impairment losses | | |
| – Other non-current assets (Note 11) | **11,775** | – |
| – Goodwill included as interest in jointly controlled entities (Note 11) | **7,233** | – |
| – Trade receivables | **1,659** | 1,340 |
| – Other receivables | **–** | 1,361 |
| – Property, plant and equipment | **–** | 25,000 |
| Provision for onerous contracts | **–** | 2,031 |
| Vessel and other expenses | **102,634** | 86,647 |
| Total of (i) "direct costs", (ii) "general and administrative expenses" and (iii) "other expenses" | **1,181,347** | 928,775 |

## 25 Other Income and Gains

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Gains | | |
| Gains on forward freight agreements | **29,831** | 54,997 |
| Gain on disposal of available-for-sale financial assets | **15,984** | – |
| Gains on repurchase and cancellation of convertible bonds | **–** | 1,548 |
| Write-back of provision for impairment of other receivables | **1,361** | – |
| Provision for onerous contract | | |
| – write-back for the year | **–** | 27,199 |
| – utilised during the year | **–** | 26,733 |
| | **47,176** | 110,477 |

## 26 Employee Benefit Expenses (Including Directors' Emoluments)

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Directors' fees | **362** | 329 |
| Salaries and bonuses | **35,365** | 36,712 |
| Retirement benefit costs | **1,867** | 1,364 |
| Share-based compensation | **3,911** | 5,377 |
| | **41,505** | 43,782 |

### (a) Directors' emoluments

The aggregate amount of emoluments payable to the Directors of the Company during the year was US$5.8 million (2009: US$6.0 million). Details of Directors' remuneration are disclosed in sections 2, 3 and 4 of the Remuneration Report of this annual report.

### (b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include five (2009: four) Directors whose emoluments are reflected in note (a) above and amounted to US$5.4 million (2009: US$5.0 million). For the year ended 31 December 2009, the emoluments payable to the one remaining individual were US$0.8 million. Further details are disclosed in section 6 of the Remuneration Report of this annual report.

## 27 Finance Income and Costs

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Finance income | | |
| Bank interest income | **(18,069)** | (10,270) |
| Finance lease interest income | **(1,024)** | (1,163) |
| | **(19,093)** | (11,433) |
| Finance costs | | |
| Interest on bank loans wholly repayable within five years | **4,797** | 1,438 |
| Interest on bank loans not wholly repayable within five years | **4,990** | 5,340 |
| Interest on finance leases wholly repayable within five years | **7,557** | – |
| Interest on finance leases not wholly repayable within five years | **5,629** | 14,175 |
| Interest on convertible bonds not wholly repayable within five years | **6,585** | – |
| Interest on convertible bonds wholly repayable within five years | **14,131** | 16,233 |
| Other finance charges | **323** | 348 |
| Net losses on interest rate swap contracts | **6,274** | 1,220 |
| | **50,286** | 38,754 |
| Finance costs, net | **31,193** | 27,321 |

## 28 Taxation

Hong Kong profits tax has been provided at the rate of 16.5% (2009: 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:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Current taxation | | |
| Hong Kong profits tax | **1,047** | 961 |
| Overseas tax | **745** | 1,834 |
| Overprovision of prior year | **(1,339)** | (1,072) |
| | **453** | 1,723 |

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:

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Profit before taxation | **104,791** | 112,001 |
| Less: share of profits less losses of jointly controlled entities | **(1,805)** | (7,246) |
| Add: share of profits less losses of associates | **192** | 103 |
| | **103,178** | 104,858 |
| Tax calculated at applicable tax rates | **17,376** | 18,758 |
| Income not subject to taxation | **(86,960)** | (92,118) |
| Expenses not deductible for taxation purposes | **65,411** | 74,633 |
| Tax losses for which no deferred income tax asset was recognised | **5,965** | 1,522 |
| Overprovision of prior year | **(1,339)** | (1,072) |
| Taxation charge | **453** | 1,723 |

The weighted average applicable tax rate was 16.8% (2009: 17.9%).

Deferred income tax assets for tax losses are recognised to the extent that it is probable that future taxable profit will be available against which tax losses can be utilised. The Group did not recognise deferred income tax assets of US$7,487,000 (2009: US$1,522,000) in respect of losses and temporary differences amounting to US$24,955,000 (2009: US$5,073,000). These tax losses have no expiry date.

## 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$123,895,000 (2009: US$243,564,000).

## 30 Dividends

| | **2010** **US$'000** | 2009 US$'000 |
|---|---|---|
| Interim dividend of HK 5 cents or US 0.6 cents per share (2009: HK 8 cents or US 1.0 cents per share) | **12,422** | 19,912 |
| Proposed final dividend of HK 16.5 cents or US 2.1 cents per share (2009: HK 15 cents or US 1.9 cents) | **40,950** | 37,272 |
| | **53,372** | 57,184 |

The dividends paid in 2010 and 2009 were US$49,694,000 (HK 20 cents or US 2.5 cents per share) and US$19,912,000 (HK 8 cents or US 1.0 cents per share) respectively. The Directors recommend the payment of a 2010 final dividend of HK 16.5 cents or US 2.1 cents per share amounting to a total dividend of US$40,950,000. Such dividend is to be approved by the shareholders at the Annual General Meeting on 19 April 2011. These financial statements do not reflect this dividend payable.

## 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)).

| | **2010** | 2009 |
|---|---|---|
| Profit attributable to shareholders (US$'000) | **104,338** | 110,278 |
| Weighted average number of ordinary shares in issue ('000) | **1,929,463** | 1,857,902 |
| Basic earnings per share | **US 5.41 cents** | US 5.94 cents |
| Equivalent to | **HK 42.01 cents** | HK 46.01 cents |

### (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 in issue 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)).

| | **2010** | 2009 |
|---|---|---|
| Profit attributable to shareholders (US$'000) | **104,338** | 110,278 |
| Weighted average number of ordinary shares in issue ('000) | **1,929,463** | 1,857,902 |
| Adjustments for share options ('000) | **224** | 588 |
| Weighted average number of ordinary shares for diluted earnings per share ('000) | **1,929,687** | 1,858,490 |
| Diluted earnings per share | **US 5.41 cents** | US 5.93 cents |
| Equivalent to | **HK 42.00 cents** | HK 45.99 cents |

## 32 Notes to The Consolidated Cash Flow Statement

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

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Profit before taxation | **104,791** | 112,001 |
| Adjustment for: | | |
| Finance costs, net | **31,193** | 27,321 |
| Share of profits less losses of jointly controlled entities | **(1,805)** | (7,246) |
| Share of profits less losses of associates | **192** | 103 |
| Depreciation | **58,004** | 40,919 |
| Amortisation of land use rights | **108** | 59 |
| Provision for/(write back of) impairment losses | | |
| – Other non-current assets | **11,775** | – |
| – Goodwill included as interests in jointly controlled entities | **7,233** | – |
| – Trade receivables | **1,659** | 1,340 |
| – Other receivables | **(1,361)** | 1,361 |
| – Property, plant and equipment | **–** | 25,000 |
| Share-based compensation | **3,911** | 5,377 |
| Losses on disposal of property, plant and equipment | **–** | 2,522 |
| Gains on disposal of available-for-sale financial assets | **(15,984)** | – |
| Net unrealised losses on derivative instruments not qualified as hedges, excluding interest rate swap contracts | **11,575** | 7,460 |
| Change in provision for onerous contracts | **–** | (51,901) |
| Losses/(gains) on repurchase and cancellation of convertible bonds | **651** | (1,547) |
| Exchange differences | **5,540** | 746 |
| Profit before taxation before working capital changes | **217,482** | 163,515 |
| Increase in inventories | **(5,886)** | (9,318) |
| (Increase)/decrease in trade and other receivables | **(26,050)** | 35,467 |
| Increase/(decrease) in trade and other payables | **14,637** | (42,661) |
| Cash generated from operations | **200,183** | 147,003 |

**(b)** Major non-cash transaction includes an addition of property, plant and equipment transferred from hedging reserve of US$17,116,000.

## 33 Commitments

### (a) Capital commitments

| | Group | |
|---|---|---|
| | **2010** | 2009 |
| | ***US$'000*** | *US$'000* |
| Contracted but not provided for: | | |
| – vessel acquisitions and shipbuilding contracts | **321,361** | 244,219 |
| – investment in unlisted equity securities | **12,879** | 11,229 |
| – investment in an associate | **2,516** | – |
| | **336,756** | 255,448 |
| Authorised but not contracted for: | | |
| – vessel acquisitions and shipbuilding contracts | **90,100** | 41,630 |
| – investment in a jointly controlled entity | **–** | 13,183 |
| | **90,100** | 54,813 |
| | **426,856** | 310,261 |

Capital commitments that fall due in not later than one year amounted to US$170.7 million (2009: US$234.6 million).

As at 31 December 2010, the Company has no capital commitment (2009: Nil).

### (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 2010** | | | | | | | | |
| Not later than one year | **62,376** | **52,840** | **–** | **935** | **3,319** | **119,470** | **3,233** | **122,703** |
| Later than one year but not later than five years | **129,106** | **20,497** | **–** | **505** | **26,353** | **176,461** | **7,160** | **183,621** |
| Later than five years | **50,150** | **12,608** | **–** | **–** | **3,283** | **66,041** | **1,341** | **67,382** |
| | **241,632** | **85,945** | **–** | **1,440** | **32,955** | **361,972** | **11,734** | **373,706** |
| 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 |

## 33 Commitments (Continued)

### (b) Commitments under operating leases (continued)

#### *(i) The Group as the lessee (continued)*

Contingent lease payments made amounted to US$10,926,000 (2009: US$6,994,000).

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

#### *(ii) The Group as the lessor*

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

| | Vessels *US$'000* | Investment properties *US$'000* | Total *US$'000* |
|---|---|---|---|
| **At 31 December 2010** | | | |
| Not later than one year | **61,650** | **232** | **61,882** |
| Later than one year but not later than five years | **129,714** | **88** | **129,802** |
| Later than five years | **50,616** | **–** | **50,616** |
| | **241,980** | **320** | **242,300** |
| 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 |

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 carried out in the normal course of the Group's business and on an arm's length basis were as follows:

### (a) Purchases of services

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Management fee and commission paid to Isis RoRo Management Limited ("Isis") (Note i) | **241** | – |
| Management fee and commission paid to Meridian Marine Management Limited ("Meridian") (Note ii) | **305** | – |
| Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") (Note iii) | **–** | 392 |

Note:

(i) The Group paid to Isis, a jointly controlled entity, management fees and commissions in relation to commercial management services.

(ii) The Group paid to Meridian, a jointly controlled entity, management fees and commissions in relation to technical management services.

(iii) The Group entered into certain insurance contracts through Sun Hing, a related company in which approximately 36% of its shareholding was held indirectly by the late Dr. Lee Kwok Yin, Simon, a former Director and a former shareholder of the Company.

### (b) Sales of services

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Charter-hire income received from FBSL (Note i) | **2,112** | 4,479 |
| Management fee income received from FBSL | **2,973** | 7,831 |
| Termination fee received from FBSL | **3,300** | – |
| Interest income received from FBSL on short term loan | **–** | 699 |
| Charter-hire income received from OMSA (Note ii) | **13,297** | 5,191 |
| Service fee received from OMSA | **8,276** | – |

Note:

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

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

## 34 Significant Related Party Transactions (Continued)

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

| | 2010 US$'000 | 2009 US$'000 |
|---|---|---|
| Directors' fee | **362** | 329 |
| Salaries and bonuses | **5,868** | 7,113 |
| Retirement benefit costs | **190** | 161 |
| Share-based compensation | **1,711** | 2,015 |
| | **8,131** | 9,618 |

## 35 Financial guarantees

At 31 December 2009, the Group gave a corporate guarantee of approximately US$47.0 million for a jointly controlled entity in respect of a loan facility granted to the entity.

At 31 December 2010, the Company has given corporate guarantees with maximum exposures of US$351.2 million (2009: US$324.3 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 Principal Subsidiaries

At 31 December 2010, 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 2010 % | Interest held 2009 % | Principal activities |
|---|---|---|---|---|---|
| *Shares held directly:* | | | | | |
| PB Vessels Holding Limited | BVI | 101,118,775 shares of US$1 each | **100** | 100 | Investment holding |
| PB Management Holding Limited | BVI | 12,313 shares of US$1 each | **100** | 100 | Investment holding |
| PB Issuer Limited | BVI | 1 share of US$1 | **100** | 100 | Bond issuer |
| PB Issuer (No. 2) Limited (Formerly "Olympic Star Limited") | BVI | 1 share of US$1 | **100** | – | Bond issuer |
| *Shares held indirectly:* | | | | | |
| Alumina Mountain Limited | BVI | 1 share of US$1 | **100** | – | Vessel owning |
| AMS Salvage and Towage Pty. Ltd. | AUS/Int'l | 100 shares of AUD1 each | **100** | 100 | Tugs owning and chartering |
| Amur River Limited | BVI | 1 share of US$1 | **100** | – | Vessel owning |
| 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 |

## 37 Principal Subsidiaries (Continued)

| Company | Place of incorporation/ operation[3] | Issued and fully paid share capital | Interest held 2010 % | Interest held 2009 % | Principal activities |
|---|---|---|---|---|---|
| Bulk Ventures Limited | BVI | 1 share of US$1 | 100 | 100 | Investment holding |
| Cape York Shipping Limited | BVI/Int'l | 1 share of US$1 | 100 | – | Vessel owning and chartering |
| Champion Bay Limited | BVI/Int'l | 1 share of US$1 | 100 | 100 | Vessel owning and chartering |
| Coal Mountain Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning |
| Delphic Shipping (BVI) Limited | BVI/Int'l | 100 shares of US$0.01 each | 100 | 100 | Vessel owning and chartering |
| Dover Sole Limited | BVI/Int'l | 1 share of US$1 | 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 | 100 | Vessel owning and chartering |
| 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 |
| Grain Mountain Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning |
| 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 |
| Hondo River Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning |
| 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 |
| Kaiti Hill Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning and chartering |
| Kumberstar Limited | BVI | 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 |
| Luzon Strait Shipping (BVI) Limited (Formerly "Olympic Mountain Limited") | BVI | 1 share of US$1 | 100 | – | Vessel owning and chartering |
| Matakana Island Limited | HK/Int'l | 1 share of HK$1 | 100 | 100 | Vessel owning and chartering |
| Mega Fame Limited | BVI | 1 share of US$1 | 100 | 100 | Vessel owning |
| 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 |
| Niagara River Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning |
| Nobal Sky Limited | BVI/Int'l | 1 share of US$1 | 100 | 100 | Vessel owning and chartering |
| Olympic Harbour Limited | BVI | 1 share of US$1 | 100 | 100 | Vessel owning |
| Olympic River Limited | BVI | 1 share of US$1 | 100 | 100 | Vessel owning |
| Othello Shipping (BVI) Limited | BVI/Int'l | 2,659,300 shares of US$0.01 each | 100 | 100 | Vessel owning and chartering |
| PacMarine Services Co., Ltd. | Korea | 10,000 shares of KRW5,000 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 |

## 37 Principal Subsidiaries (Continued)

| Company | Place of incorporation/ operation[3] | Issued and fully paid share capital | Interest held 2010 % | Interest held 2009 % | Principal activities |
|---|---|---|---|---|---|
| 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 Handymax Limited (Formerly "Pacific Basin IHX Limited") | HK | 1 share of HK$1 | 100 | 100 | Ship management services |
| Pacific Basin Handymax (UK) Limited (Formerly "Pacific Basin IHX (UK) Limited") | E&W | 1 share of GBP1 | 100 | 100 | Ship management services |
| Pacific Basin Handysize Limited (Formerly "Pacific Basin IHC Limited") | BVI/HK | 10 shares of US$1 each | 100 | 100 | Ship management services |
| Pacific Basin Handysize (HK) Limited (Formerly "Pacific Basin Handysize Limited") | HK | 1 share of HK$1 | 100 | – | Ship management services |
| Pacific Basin Handysize (UK) Limited (Formerly "Pacific Basin IHC (UK) Limited") | E&W | 2 shares of GBP1 each | 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 | 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 | 100 | Shipping consulting services |
| Pacific Basin Shipping (New Zealand) Limited [1] | New Zealand | 100 shares without par value | 100 | 100 | Shipping consulting services |
| 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 Diamantina Limited | Cook | 2 shares of US$1 each | 100 | – | Tug owning and chartering |
| PB Maritime Services Limited | HK | 1 share of HK$1 | 100 | 100 | Ship management services |

## 37 Principal Subsidiaries (Continued)

| Company | Place of incorporation/ operation[3] | Issued and fully paid share capital | Interest held 2010 % | Interest held 2009 % | Principal activities |
|---|---|---|---|---|---|
| PB Maritime Services Holdings Limited | BVI | 500,000 shares of US$1 each | 100 | 100 | Investment holding |
| PB Maritime Personnel Inc.[1] | The Philippines | 1,730,000 shares of PHP10 each | 100 | 100 | Crewing services |
| PB Offshore (No.2) Limited | Cook | 10 shares of US$1 each | 100 | 50 | Vessel owning and chartering |
| 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. | Singapore | 1 share of US$1 | 100 | 100 | Tugs chartering |
| PB Sea-Tow (Australia) Pty Ltd | AUS | 1 share of AUD1 | 100 | 100 | Ship management services |
| PB Sea-Tow (Awanuia) Limited | New Zealand | 100 shares without par value | 100 | 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 Niugini Pte. Ltd. | Singapore | 1 share of S$1 | 100 | – | Tugs chartering and ship operation |
| PB Sea-Tow (NZ) Limited | New Zealand | 1 share without par value | 100 | 100 | Ship management services |
| 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 | 100 | Tugs owning and chartering |
| PB Towage Asset (No.1) Limited | Cook/Int'l | 2 shares of US$1 each | 100 | 100 | 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 AUD1 | 100 | 100 | Tugs owning and chartering |
| PB Towage Assets #4 Pty Ltd | AUS/Int'l | 1 share of AUD1 | 100 | 100 | Tugs owning and chartering |
| PB Towage Australia (Onslow) Pty Ltd | AUS | 1 share of AUD1 | 100 | 100 | Tugs owning and chartering |
| PB Towage (Australia) Holdings Pty Ltd | AUS | 57,589,338 shares of AUD1 each | 100 | 100 | Tug owning and chartering |
| PB Towage (Australia) Pty Ltd | AUS | 1,390,100 shares of AUD2.34 each | 100 | 100 | Ship management services |
| PB Towage Middle East Limited (Formerly "PB Offshore (No. 1) Limited") | Cook | 2 shares of US$1 each | 100 | 100 | Ship management services |
| PBS Corporate Secretarial Limited | HK | 1 share of HK$1 | 100 | 100 | Secretarial services |
| Petcoke Mountain Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning |
| Phosphate Mountain Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning |
| Pigeon River Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning |
| 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 |
| Strait of Gibraltar Limited | E&W | 1 share of GBP1 | 100 | – | Vessel owning and chartering |
| 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 | Ship agency and management services |
| Uhland Shipping (BVI) Limited | BVI/Int'l | 100 shares of US$0.01 each | 100 | 100 | Vessel owning and chartering |
| Verner Shipping (BVI) Limited | BVI | 100 shares of US$0.01 each | 100 | 100 | Vessel owning and chartering |
| West Bay Shipping Limited | HK/Int'l | 1 share of HK$1 | 100 | – | Vessel owning and chartering |
| Wheat Mountain Limited | BVI | 1 share of US$1 | 100 | – | Vessel owning |

1 The financial statements of these subsidiaries have not been audited by PricewaterhouseCoopers. The aggregate net assets and net results for the year attributable to the shareholders of the Group amounted to approximately US$13,020,000 (2009: US$13,042,000) and US$308,000 loss (2009: US$645,000 profit) 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 | | 2010 | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|---|---|
| **Results** | | | | | | |
| Revenue | | **1,268,542** | 950,477 | 1,690,948 | 1,177,292 | 620,444 |
| Gross profit | | **159,329** | 152,796 | 358,597 | 384,522 | 128,969 |
| Eligible profit attributable to shareholders | | **104,338** | 112,800 | 297,911 | 472,125 | 110,292 |
| Profit before taxation | | **104,791** | 112,001 | 412,408 | 473,021 | 111,427 |
| Taxation | | **(453)** | (1,723) | (3,618) | (889) | (1,135) |
| Profit after taxation | | **104,338** | 110,278 | 408,790 | 472,132 | 110,292 |
| Attributable to: | | | | | | |
| Shareholders | | **104,338** | 110,278 | 409,119 | 472,125 | 110,292 |
| Minority interests | | **–** | – | (329) | 7 | – |
| | | **104,338** | 110,278 | 408,790 | 472,132 | 110,292 |
| **Balance Sheet** | | | | | | |
| Total assets | | **2,555,388** | 2,469,893 | 2,330,505 | 1,654,336 | 919,895 |
| Total liabilities | | **(1,010,497)** | (1,014,326) | (1,111,803) | (786,769) | (434,902) |
| Total equity | | **1,544,891** | 1,455,567 | 1,218,702 | 867,567 | 484,993 |
| Net (borrowings)/cash | | **(156,029)** | 229,084 | 175,929 | (10,730) | (287,223) |
| Cash and deposits | | **703,437** | 1,105,662 | 1,023,741 | 649,535 | 63,242 |
| **Cash Flows** | | | | | | |
| From operating activities | | **198,577** | 145,337 | 459,083 | 313,979 | 148,188 |
| From investment activities of which | | **(462,154)** | (177,776) | (244,496) | 101,982 | (241,075) |
| gross investment in vessels | | **(540,612)** | (279,543) | (316,757) | (257,464) | (285,138) |
| From financing activities | | **(96,532)** | 55,718 | 110,754 | 170,332 | 74,048 |
| Change in cash and cash equivalent for the year | | **(360,109)** | 23,279 | 325,341 | 586,293 | (18,839) |
| **Other Data** | | | | | | |
| Basic EPS | US cents | **5** | 6 | 24 | 30 | 8 |
| Dividends per share[1] | US cents | **3** | 3 | 10 | 15 | 6 |
| Eligible profit payout ratio[2] | | **51%** | 51% | 57% | 52% | 71% |
| Cash flows from operating activities per share | US cents | **10** | 8 | 27 | 20 | 11 |
| Net book value per share | US cents | **80** | 76 | 70 | 55 | 31 |
| Dividends | US$'000 | **53,372** | 57,222 | 170,142 | 243,572 | 78,562 |

1 The 2010 dividends include the proposed final dividend of HK 16.5 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 eligible profit excluded vessel disposal gains.

# Information for Shareholders

| Financial Calendar for 2011 | Planned Date |
|---|---|
| **2010 annual results** | **1 March** |
| Last day of dealings in Shares with entitlement to 2010 final dividend | 12 April |
| Ex-dividend date | 13 April |
| Deadline for lodging transfers for entitlement to (i) attend the annual general meeting, and (ii) 2010 final dividend | 4:30 pm HK time, 14 April |
| Book closure period (both days inclusive) | 15 to 19 April |
| Q1 trading activities update | 18 April |
| Record date for 2010 final dividend | 19 April |
| **Annual General Meeting** | **19 April** |
| 2010 final dividend payment date | 29 April |
| **2011 interim results** | **3 August** |
| Last day of dealings in Shares with entitlement to 2011 interim dividend | 15 August |
| Ex-dividend date | 16 August |
| Deadline for lodging transfers for entitlement to 2011 interim dividend | 4:30 pm HK time, 17 August |
| Book closure period (both days inclusive) | 18 & 19 August |
| Record date for 2011 interim dividend | 19 August |
| 2011 interim dividend payment date | 29 August |
| Q3 trading activities update | 28 October |

## Annual Report

The Annual Report is printed in English and Chinese languages, and will be available on our website at www.pacificbasin.com no later than the date it is sent to those shareholders who have elected to receive a printed copy on or around 18 March 2011.

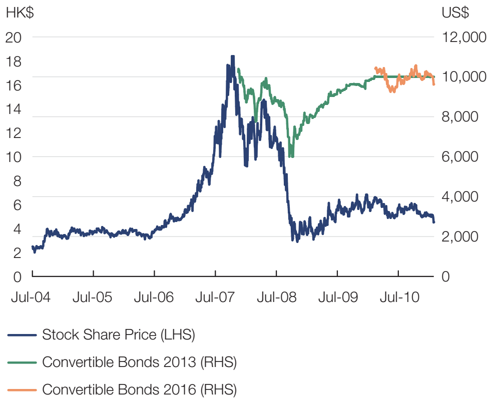
## Annual General Meeting

To be held at 10:30 a.m. on Tuesday, 19 April 2011. Details thereof including shareholders' rights are set out in the Notice of Annual General Meeting which will be available on our website no later than the date it is sent to those shareholders who have elected to receive a printed copy on or around 18 March 2011.

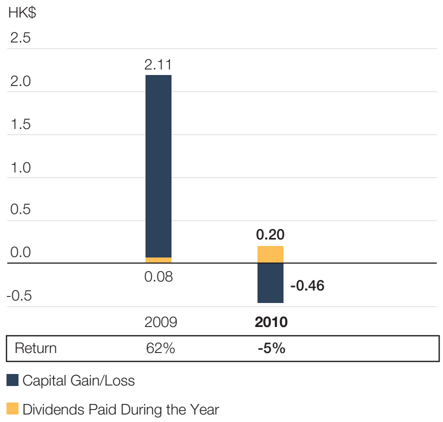
## Share Price Performance

As at 31 December 2010, the market capitalisation of Pacific Basin was US$788.5 million. The Company's Shares are a constituent member of Hang Seng sub index series and MSCI Index series.

### *Price of Pacific Basin Shares and Convertible Bonds (14 July 2004 – 28 Feb 2011)*




### *Total Shareholders' Return*



*2010 Interim Results analyst briefing*

## Investor Relations and Corporate Communications

Pacific Basin's policy is to be transparent about its operations and performance. 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 communication with its existing and potential investors and believes that investor relations efforts can help the public enhance its understanding of the Company, increase recognition of the Company's development and ultimately enhance shareholder value.

The Investor Relations Department aims to encourage feedback from the public and drew on the following investor and media initiatives and tools in 2010:

**Regular Meetings & Conference Calls**
Investors and analysts' briefings on the Company's annual and interim results were provided, along with timely updates on business developments during each quarter, investment bank conferences and investor meetings & calls.

**Vessel Tours**
Ship visits were organised during 2010 to which we invited analysts, investors, press and guests (during vessels' port calls or at ship naming ceremonies).

**Feedback from Shareholders**
Shareholders' hotline and e-mail contacts were established to encourage feedback, comments, queries and reports from the market. Investors may call our hotline at +852 2233 7054 during business hours, or e-mail us at ir@pacificbasin.com.

**Investor Relations enhances:**
- Transparency
- Recognition
- Shareholder Value

**Company website**
Enhancements were made to our Company website in 2010 to increase its accessibility and functionality such as fleet profile and balance sheet Excel download; website accessible on different browsers and by mobile phone.

**Financial Reporting**
Detailed information in annual and interim reports supplemented by quarterly trading updates and announcements. Investors can access this information through our website. Shareholders prefering hard copies of the information listed above should please contact our Investor Relations Department.

**Media Relationship**
Offering explanation of Pacific Basin's strategy and development in results briefings and regular meetings and conference calls to enhance media understanding of the Group and the shipping industry.

**www.pacificbasin.com**
Information available on the website:

- Biographical data on Directors and management team
- Board Committees' Terms of Reference
- Business development and fleet profile
- Corporate Governance, Risk Management, Corporate Social Responsibility
- Share information
- Financial information, news, and press kits
- Linked websites of the Group's subsidiaries.

During 2010, Pacific Basin received a number of awards for its efforts including:

- "Best Dry Bulk Owner/Operator Award" organised by Lloyd's List Asia Awards 2010
- "The Bulk Operator Award" organised by Seatrade Asia Awards 2010
- "Bulk Ship Operator of the Year" by IBJ Awards 2010
- "Best Performing Ship Management Company in Port State Control Inspection" organised by H.K.S.A.R. Marine Department in 2010
- "Green Awareness Award 2010" by Hong Kong Shipping Register
- "Gold Pennant" by AMVER Award 2009
- "The Best of Asia - Hong Kong" at the 6th Corporate Governance Asia
- Pacific Basin also received three awards at the 12th Annual IR Global Rankings 2010
    - "Best Corporate Governance in Greater China"
    - "Best Corporate Governance in the Industrials Industry"
    - Certificate of Excellence for "Corporate Governance in Asia-Pacific"

## Share Information

As at 31 December 2010, the Company had 1,931,878,119 ordinary shares in issue, each with a par value of US$0.10. As at that date, the Company had 394 registered shareholders (of whom 346 or 87.82% holding in aggregate 1,924,195,907 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 98.28% of the Company's total issued share capital is held by the public.

## Shareholders' Rights

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may write directly to the Company Secretary at the Company's Hong Kong registered office of 7th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, or they may send an email to companysecretary@pacificbasin.com.

Should shareholders wish to call a special general meeting, it must be convened according to the Company's Bye-laws. In summary:

1. Shareholders holding not less than one-tenth of the paid up capital of the Company can, in writing to the Board or the Secretary of the Company, request a special general meeting to be called by the Board so as to carry out any business specified in such request.

2. The signed written request, which should specify the purpose of the meeting, should be delivered to the Company's registered office in Hong Kong. The meeting will be held within two months after being received. If the Board fails to proceed to convene such meeting within twenty-one days of receiving the request, the shareholders themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

## Shareholders Meetings

The Company held two general meetings during the reporting year.

At the special general meeting held on 29 March 2010, an ordinary resolution was passed to approve entering into the Subscription Agreement in respect of the 1.75% Guaranteed Convertible Bonds due 2016 by the Company and the issue of the Convertible Bonds and the Conversion Shares in accordance with the terms and conditions of the Subscription Agreement.

*Meeting with shareholders at the 2010 Annual General Meeting*

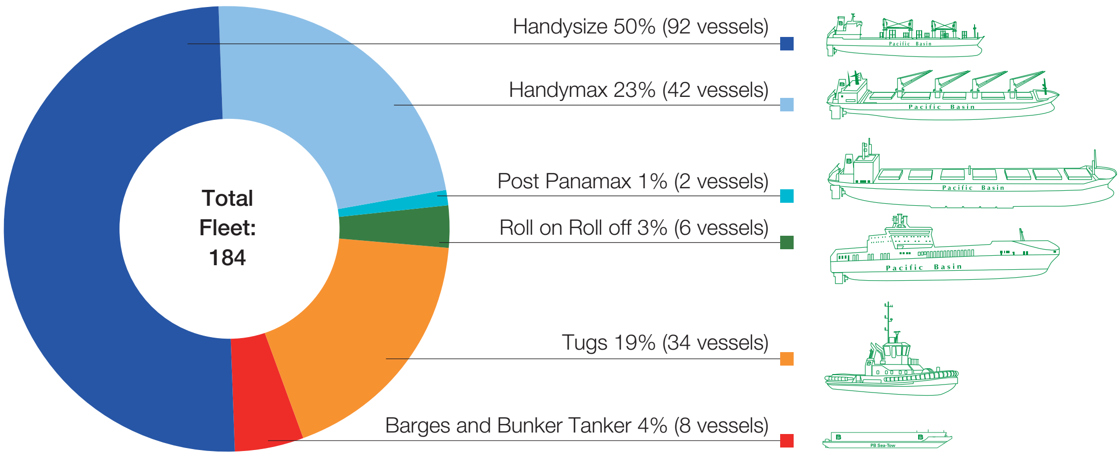
The annual general meeting was held on 22 April 2010. Resolutions were passed to approve (i) the receipt and adoption of the audited financial statements and the Reports of the Directors and Auditors for the year ended 31 December 2009; (ii) the declaration of final dividend of HK 15 cents per Share for the year ended 31 December 2009; (iii) the re-election of Directors; (iv) the fixing of the remuneration of the Directors by the Board; (v) the re-appointment of Messrs. PricewaterhouseCoopers as auditors for the year ended 31 December 2010 and to authorise the Board to fix their remuneration; (vi) the general mandate to repurchase Shares; and (vii) the renewal of the 2% annual cap within the issue mandate under the Long Term Incentive Scheme.

All resolutions tabled at the two general meetings were voted on by poll.

# Fleet Summary

At 25 February 2011

*Pacific Basin Fleet Distribution*




| | Delivered | | Newbuildings on order | | |
|---|---|---|---|---|---|
| | Owned | Chartered[1] | Owned | Chartered[1] | Total |
| **Dry Bulk** | | | | | |
| Handysize | 30 | 49 | 7 | 6 | 92 |
| Handymax | 2 | 32 | 5 | 3 | 42 |
| Post Panamax | – | – | 1 | 1 | 2 |
| **Total Dry Bulk Vessels** | 32 | 81 | 13 | 10 | 136 |
| **Towage** | | | | | |
| Tugs | 32 | 2 | – | – | 34 |
| Barges | 6 | 1 | – | – | 7 |
| Bunker Tanker | 1[2] | – | – | – | 1 |
| **Total Towage Vessels** | 39 | 3 | – | – | 42 |
| **Roll on Roll off** | 3 | – | 3 | – | 6 |
| **Grand Total** | 74 | 84 | 16 | 10 | 184 |

Notes:

1 The dry bulk chartered fleet comprises 13 vessels under finance leases and 78 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 the bunker tanker.

# 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. Andrew T. Broomhead (Chief Financial Officer)
Mr. Wang Chunlin

**Non-executive Director**
Mr. Richard M. Hext

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

## Principal Board Committees

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

**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, Connecticut, 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
email: hkinfo@computershare.com.hk

## Auditors

PricewaterhouseCoopers

## Solicitors

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

## Company Secretary

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

## Website

http://www.pacificbasin.com

## Listing Venue/Listing Date

The Stock Exchange of Hong Kong Limited
(the "Stock Exchange")/14 July 2004

## Stock Code

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

## Public and Investor Relations

The Company
email: ir@pacificbasin.com
tel: + 852 2233 7000 fax: + 852 2110 0171

## Total Shares In Issue

1,931,878,119 as at 31 December 2010

**About Pacific Basin**

Pacific Basin Shipping Limited is one of the world's leading owners and operators of modern handysize and handymax dry bulk vessels and a global provider of diversified shipping services. The Company is listed and headquartered in Hong Kong, and operates in three main maritime segments under the banners of Pacific Basin Dry Bulk, PB Energy & Infrastructure Services, and PB RoRo. Our fleet (including newbuildings on order) comprises 184 vessels directly servicing blue chip industrial customers. With over 2,100 seafarers and 375 shore-based staff in 22 offices in key locations around the world, Pacific Basin provides a comprehensive quality service to its customers.

**Pacific Basin Shipping Limited**

7/F, Hutchison House, 10 Harcourt Road, Central, Hong Kong

Telephone: +852 2233 7000 Facsimile: +852 2865 2810

www.pacificbasin.com