



NOTES TO THE ACCOUNTS

1. REORGANISATION AND BASIS OF PREPARATION

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

Pursuant to the transfer of PB Vessels Holding Limited and all its subsidiaries into the Company through an exchange of shares (the “Exchange of Shares”), as detailed in the prospectus of the Company dated 30 June 2004 (the “Prospectus”), which was completed on 30 March 2004, the Company became the holding company of those companies.

The Exchange of Shares is accounted for using merger accounting as permitted by the Hong Kong Statement of Standard Accounting Practice (“SSAP”) No. 27 “Accounting for group reconstructions” issued by the Hong Kong Institute of Certified Public Accountants (“HKICPA”). The accounts of the Group for the year ended 31 December 2004, including comparative figures, are prepared as if the Company had been the holding company of the Group from the beginning of the earliest period presented.

Subsequent to the Exchange of Shares, the Company entered into further transactions (the “Further Acquisitions”) to complete the group reorganisation (the “Reorganisation”) in preparation for the listing of the shares of the Company. These transactions comprise primarily acquisitions of interests in certain vessel holding companies and ship management companies as set out in the Prospectus. The results of these companies are included in the consolidated profit and loss account from the effective date of acquisition, 31 March 2004.

The shares of the Company were listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”) on 14 July 2004 (the “Listing Date”).

The accounts have been prepared under the historical cost conventions in accordance with accounting principles generally accepted in Hong Kong, and comply with accounting standards issued by the HKICPA.

The HKICPA has issued a number of new and revised Hong Kong Financial Reporting Standards and Hong Kong Accounting Standards (“new HKFRSs”) which are effective for accounting periods beginning on or after 1 January 2005. The Group was not required to adopt these new HKFRSs in the accounts for the year ended 31 December 2004. The Group has already commenced an assessment of the impact of these new HKFRSs, but is not yet in a position to state whether these new HKFRSs would have a significant impact on its results of operations and financial position.

2. PRINCIPAL ACCOUNTING POLICIES

(a) Group accounting

(i) *Consolidation*

The consolidated accounts include the accounts of the Company and its subsidiaries made up to 31 December.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

NOTES TO THE
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(a) Group accounting (continued)

(i) *Consolidation (continued)*

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

The results of subsidiaries acquired or disposed of during the year are included in the consolidated profit and loss account from the effective date of acquisition or up to the effective date of disposal, as appropriate.

All significant intercompany transactions and balances within the Group are eliminated on consolidation.

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) *Joint ventures*(a) *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.

The consolidated profit and loss account includes the Group's share of the results of jointly controlled entities for the year, and the consolidated balance sheet includes the Group's share of the net assets of the jointly controlled entities and goodwill or negative goodwill (net of accumulated amortisation) on acquisition.

(b) *Jointly controlled operations*

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

In respect of the Group's interests in jointly controlled operations, the consolidated profit and loss account includes the Group's share of expenses that the jointly controlled operations incurred and the Group's share of income earned by the jointly controlled operations.



NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(a) Group accounting (continued)

(iii) *Associated company*

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

The consolidated profit and loss account includes the Group's share of the results of the associated company for the year, and the consolidated balance sheet includes the Group's share of the net assets of the associated company and goodwill or negative goodwill (net of accumulated amortisation) on acquisition.

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

(iv) *Gain or loss on disposal*

The gain or loss on the disposal of a subsidiary, a jointly controlled entity or an associated company represents the difference between the proceeds of the sale and the Group's share of its net assets together with any unamortised goodwill and any related accumulated foreign currency translation reserve.

(b) Fixed assets

(i) *Vessels under construction*

Vessels under construction are stated at cost and are not depreciated.

(ii) *Vessels*

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.

Depreciation of vessels is calculated to write off their cost less accumulated impairment losses on a straight-line basis over their estimated useful lives of 25 years from the date of first registration, after allowing for their estimated scrap value.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

NOTES TO THE
ACCOUNTS

(b) Fixed assets (continued)

(iii) *Other fixed assets*

Other fixed assets, comprising motor vehicles, leasehold improvements and furniture, fixtures and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. They are depreciated at rates sufficient to write off their cost less accumulated impairment losses over their estimated useful lives on a straight-line basis. The estimated useful lives are summarised as follows:

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

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

(iv) *Impairment and gain or loss on sale*

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

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

(v) *Capitalisation of costs*

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 fixed assets.

(c) **Goodwill**

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net assets of the acquired subsidiary, jointly controlled entity and associated company at the date of acquisition.

Goodwill on acquisitions is amortised using the straight-line method over 15 years.

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



NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Operating leases

(i) *Leases — where the Group is the lessor*

When the Group leases out assets under operating leases, the assets are included in the balance sheet according to their nature and where applicable, are depreciated in accordance with the Group's depreciation policies, as set out in note 2(b)(ii) above. Revenue arising from assets leased out under operating leases is recognised on a time proportion basis.

(ii) *Leases — where the Group is the lessee*

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

(e) Investment securities

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

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

(f) Inventories

Inventories mainly comprise bunkers on board of vessels, lubricating oil and marine products. Inventories are stated at the lower of cost and net realisable value. Costs are calculated on first-in first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses. Provision for inventories is made against specific items when they are considered to be slow moving or obsolete.

(g) Trade receivables

Provisions are made against freight and charter-hire receivables to the extent they are considered to be doubtful. Trade receivables in the balance sheet are stated net of such provisions.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

NOTES TO THE
ACCOUNTS

(h) Cash and cash equivalents

Cash and cash equivalents are carried in the balance sheet at cost. For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held at call with banks.

(i) 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. Where the Group expects a provision to be reimbursed, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain.

(j) Employee benefits

(i) *Employee leave entitlements*

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

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

(ii) *Bonus*

Provisions for bonuses are recognised where there is a contractual obligation and the amount can be estimated reliably.

(iii) *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% to 10% of the employees' relevant income, with the employees' contributions subject to a cap of monthly relevant income of HK\$20,000. The Group's contributions to the scheme are expensed as incurred. 5% of relevant income vest immediately upon the completion of service in the relevant service period, while the remaining portion vest in accordance with the scheme's vesting scales. Where employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.



NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Employee benefits (continued)

(iii) *Retirement benefit obligations (continued)*

Other defined contribution schemes

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

(iv) *Equity compensation benefits*

Share options are granted to directors and employees. No compensation cost is recognised in the profit and loss account in connection with the share options being granted. When the options are exercised, the proceeds received net of any transaction costs are credited to share capital (nominal value) and share premium accounts.

(k) Deferred taxation

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

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

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

(l) 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.

2. PRINCIPAL ACCOUNTING POLICIES (continued)

NOTES TO THE
ACCOUNTS

(l) **Contingent liabilities and contingent assets (continued)**

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

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

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

(m) **Net revenue recognition**

(i) ***Ship chartering***

The Group generates revenue from shipping activities, the principal source of which is derived from the International Handybulk Carriers ("IHC") pool.

Revenues from the IHC pool are based on the number of pool points attributable to the Group's owned and chartered-in vessels participating in the pool.

IHC pool revenues are derived from a combination of voyage charter, time charter and contracts of affreightment and are recognised on an accrual basis.

(ii) ***Ship management***

The Group also generates revenues from ship management services. Such revenues are recognised when the services are rendered.

(iii) ***Others***

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

(n) **Vessel operating and drydocking costs**

Vessel operating and drydocking costs are accounted for on an accrual basis.

(o) **Translation of foreign currencies**

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



NOTES TO THE ACCOUNTS

2. PRINCIPAL ACCOUNTING POLICIES (continued)

(o) Translation of foreign currencies (continued)

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

(p) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction, or production of an asset that necessarily takes a substantial period of time to get ready for its intended use are capitalised as part of the cost of that asset.

Loan arrangement fees are deferred and amortised to the profit and loss account over the term of the loan.

All other borrowing costs are charged to the profit and loss account in the year in which they are incurred.

(q) Segment reporting

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

Segment assets consist primarily of intangible assets, fixed assets, inventories, receivables and operating cash, and mainly exclude investments in an associated company and jointly controlled entities. Segment liabilities comprise operating liabilities and exclude items such as taxation and dividend payable. Capital expenditure comprises additions to intangible assets and fixed assets, including additions resulting from acquisitions of subsidiaries.

In respect of geographical segment reporting, the nature of the provision of ship chartering services and ship management services, which are carried out internationally, and the way in which costs are allocated precludes a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment results are not presented.

3. TURNOVER, REVENUES AND SEGMENT INFORMATION

NOTES TO THE ACCOUNTS

The Group is principally engaged in the provision of ship chartering services and ship management services. Revenues recognised during the year are as follows:

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Turnover | | |
| Freight and charter-hire | 224,762 | 54,188 |
| Ship management income | 9,504 | — |
| | 234,266 | 54,188 |
| Bunkers, port disbursements and other charges | (45,383) | — |
| Turnover on a time charter equivalent basis | 188,883 | 54,188 |
| Other revenues | | |
| Interest income | 78 | 2 |
| Dividend income from investment securities | 227 | — |
| Other income | 126 | — |
| | 431 | 2 |
| Total revenues | 189,314 | 54,190 |

The acquisition of the management companies under the Further Acquisitions brought the IHC pool under the control of the Group from 31 March 2004. Accordingly the Group's turnover, subsequent to the Further Acquisition, represents its portion of income in the IHC pool and is accounted for by showing its share of gross income, less share of voyage related costs in arriving at its turnover on a time charter equivalent ("TCE") basis. The comparative figure presented represents net income from the IHC pool which is equivalent to the TCE earnings.



NOTES TO THE ACCOUNTS

3. TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)

(a) Primary reporting format — business segments

An analysis of the Group's revenues, results, assets, liabilities and other information for the year by business segment is as follows:

| | Ship chartering 2004 US\$'000 | Ship management 2004 US\$'000 | Inter-segment elimination 2004 US\$'000 | Group 2004 US\$'000 |
|---|--|--|--|---------------------------|
| Revenue | | | | |
| Turnover | 224,762 | 22,486 | (12,982) | 234,266 |
| Bunkers, port disbursements and other charges | (45,383) | — | — | (45,383) |
| Turnover on a time charter equivalent basis | 179,379 | 22,486 | (12,982) | 188,883 |
| Results | | | | |
| Segment results | 108,812 | 2,906 | — | 111,718 |
| Finance costs | (10,215) | — | — | (10,215) |
| Share of loss of an associated company | — | (10) | — | (10) |
| Share of profits of jointly controlled entities | 2,504 | — | — | 2,504 |
| Profit before taxation | | | | 103,997 |
| Taxation | | | | (485) |
| Profit attributable to shareholders | | | | 103,512 |
| Assets | | | | |
| Segment assets | 591,214 | 51,854 | — | 643,068 |
| Interests in jointly controlled entities | 10,155 | 502 | — | 10,657 |
| Interest in an associated company | — | 1 | — | 1 |
| Total assets | | | | 653,726 |
| Liabilities | | | | |
| Segment liabilities | 384,204 | 22,090 | — | 406,294 |
| Unallocated liabilities | | | | 14,796 |
| Total liabilities | | | | 421,090 |
| Other information | | | | |
| Capital expenditure | 358,004 | 1,365 | — | 359,369 |
| Depreciation | 15,474 | 394 | — | 15,868 |
| Amortisation of goodwill | — | 1,329 | — | 1,329 |
| Other non-cash expenses | 1,188 | — | — | 1,188 |

No business segment analysis is presented for the year ended 31 December 2003 as all of the Group's revenues, expenses, assets, liabilities and capital expenditure were primarily attributable to the provision of ship chartering services.

3. **TURNOVER, REVENUES AND SEGMENT INFORMATION (continued)**

NOTES TO THE
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(b) **Secondary reporting format — geographical segments**

The directors consider that the nature of the provision of ship chartering services and ship management services, which are carried out internationally, and the way in which costs are allocated precludes a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment results are not presented.

4. **DIRECT COSTS**

| | 2004 US\$'000 | 2003 US\$'000 |
|----------------------------------|------------------|------------------|
| Charter-hire expenses on vessels | 18,659 | 5,235 |
| Vessel operating costs | 19,279 | 12,460 |
| Drydocking expenses | 4,524 | 629 |
| Depreciation charge on vessels | 15,474 | 7,890 |
| Shore-based overheads | 11,017 | — |
| Cost of marine products sold | 1,762 | — |
| | 70,715 | 26,214 |

Vessel operating costs comprise all technical expenses that are incurred in operating a vessel. These include crew expenses, cost of stores and spares parts supplied, repair and maintenance expenses, insurances and other miscellaneous running costs.

Drydocking involves the removal of the vessel from the water for inspection, maintenance and/or repair of submerged parts. The Group's vessels are required to undergo a planned drydock approximately every 30 to 36 months depending on both the condition of the vessel and statutory requirements.

5. **OPERATING PROFIT**

Operating profit is stated after charging the following:

| | 2004 US\$'000 | 2003 US\$'000 |
|--|------------------|------------------|
| Auditors' remuneration | 252 | 65 |
| Amortisation of goodwill | 1,329 | — |
| Depreciation | | |
| — vessels under operating leases | 1,023 | — |
| — other fixed assets | 14,845 | — |
| Net exchange losses | 74 | — |
| Operating lease expenses on | | |
| — vessels | 18,659 | 5,235 |
| — land and buildings | 585 | — |
| Staff costs, including directors' emoluments (Note 11) | 11,704 | — |



NOTES TO THE ACCOUNTS

6. FINANCE COSTS

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Interest on bank loans not wholly repayable within five years | 7,756 | 4,756 |
| Net cost of swap contracts | 914 | — |
| Write-off of loan arrangement fees (<i>Note 19</i>) | 1,092 | — |
| Amortisation of loan arrangement fees (<i>Note 19</i>) | 96 | 65 |
| Other finance charges | 357 | — |
| | 10,215 | 4,821 |

7. TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% on the estimated assessable profit for the year. In 2003, no Hong Kong profits tax was provided as the Group had no estimated assessable profit.

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 to the consolidated profit and loss account represents:

| | 2004 US\$'000 | 2003 US\$'000 |
|---------------------------|------------------|------------------|
| Company and subsidiaries: | | |
| <i>Current taxation</i> | | |
| Hong Kong profits tax | 406 | — |
| Overseas tax | 79 | — |
| | 485 | — |

Below is a reconciliation between taxation in the consolidated profit and loss account and the aggregate tax at the domestic rates applicable to profits in the respective territories concerned.

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Profit before taxation | 103,997 | 22,686 |
| Aggregate tax at the domestic rates applicable to profits in the respective territories concerned | 813 | — |
| Income not subject to taxation | (549) | — |
| Expenses not deductible for taxation purposes | 221 | — |
| Taxation charge | 485 | — |

There was no material unprovided deferred taxation for the year and at the year end. (2003: nil)

8. PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders is dealt with in the accounts of the Company for the period from 10 March 2004 (date of incorporation) to 31 December 2004 to the extent of US\$57,720,000.

NOTES TO THE ACCOUNTS

9. DIVIDENDS

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Dividends paid by companies now comprising the Group to the then shareholders (<i>Note (a)</i>) | 31,465 | 13,900 |
| Interim, paid, of US\$0.02 (2003: US\$Nil) per share (<i>Note (b)</i>) | 18,347 | — |
| Interim, declared, of HK\$0.08 (equivalent to US\$0.01) (2003: US\$Nil) per share (<i>Note (c)</i>) | 12,995 | — |
| Final, proposed, of HK\$0.16 (equivalent to US\$0.02) (2003: US\$Nil) per share (<i>Note (d)</i>) | 25,990 | — |
| | 88,797 | 13,900 |

Notes:

- (a) The dividend rates and the number of shares ranking for the dividend in respect of the dividends declared by companies now comprising the Group under the Exchange of Shares as set out in Note 1 to the then shareholders before the Reorganisation are not presented as such information is not considered meaningful for the purpose of these accounts.
- (b) On 14 July 2004, the directors declared an interim dividend of US\$0.02 per share to the Company's shareholders on the morning of the Listing Date, not including the public shareholders.
- (c) On 13 December 2004, the directors declared an interim dividend of HK\$0.08 (equivalent to US\$0.01) per share, which was paid on 6 January 2005.
- (d) On 1 March 2005, the directors proposed a final dividend of HK\$0.16 (equivalent to US\$0.02) per share for the year ended 31 December 2004. This dividend is not reflected as a dividend payable in these accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

10. EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of the basic earnings per share is based on the Group's profit attributable to shareholders of US\$103,512,000 (2003: US\$22,686,000) and the weighted average number of 1,079,318,992 (2003: 795,016,897) shares in issue, assuming that the 795,016,897 shares issued pursuant to the Exchange of Shares had been in issue throughout both years.



NOTES TO THE ACCOUNTS

10. EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of the diluted earnings per share for the year ended 31 December 2004 is based on the weighted average number of 1,079,318,992 shares in issue during the year plus the weighted average of 4,924,795 shares deemed to have been issued at no consideration assuming all outstanding share options had been exercised.

No information in respect of diluted earnings per share is presented for the year ended 31 December 2003 as the Company had no potential dilutive shares.

11. STAFF COSTS, INCLUDING DIRECTORS' EMOLUMENTS

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Wages and salaries | 11,458 | — |
| Retirement benefit costs — defined contribution retirement schemes | 246 | — |
| | 11,704 | — |

Total staff costs do not include the amounts of benefit in kind in respect of the share options granted to the Company's directors and the Group's employees. Details of the Company's share options are set out in Note 27(k).

No forfeited contributions were available during the year to reduce contributions payable by the Group (2003: US\$Nil).

Contributions totalling US\$27,000 (2003: US\$Nil) were payable to the defined contribution retirement schemes at year end.

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS

(a) Directors' emoluments

The aggregate amounts of emoluments payable to directors of the Company during the year are as follows:

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Fees | 124 | — |
| Other emoluments | | |
| Salaries, allowances and benefits in kind | 1,008 | — |
| Bonus | 1,008 | — |
| Retirement benefit costs | 3 | — |
| | 2,143 | — |

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

NOTES TO THE
ACCOUNTS

(a) Directors' emoluments (continued)

Fees paid to non-executive directors were US\$124,000 (2003: US\$Nil).

During the year, 14,400,000 share options were granted to the directors under the share option scheme approved by the shareholders on 17 June 2004 ("Share Option Scheme"). The market value per share at the date of grant is HK\$2.50. Refer to Note 27(k) to the accounts for details of options granted during the year.

The emoluments of the directors fell into the following bands:

| | Number of directors | |
|--|---------------------|------|
| | 2004 | 2003 |
| Emolument bands | | |
| US\$Nil-US\$128,205 (HK\$Nil-HK\$1,000,000) | 6 | — |
| US\$576,923-US\$641,026 (HK\$4,500,001-HK\$5,000,000) | 2 | — |
| US\$769,231-US\$833,333 (HK\$6,000,001-HK\$6,500,000) | 1 | — |
| | 9 | — |

During the year, none of the directors waived their directors' fees (2003: Nil).

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include three (2003: Nil) directors whose emoluments are reflected in the analysis presented above. The emoluments payable to the remaining two (2003: Nil) individuals during the year are as follows:

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Salaries, allowances and benefits in kind | 429 | — |
| Bonus | 431 | — |
| Retirement benefit costs | 2 | — |
| | 862 | — |



NOTES TO THE ACCOUNTS

12. DIRECTORS' AND SENIOR MANAGEMENT'S EMOLUMENTS (continued)

(b) Five highest paid individuals (continued)

The emoluments of the remaining two highest paid employees fell within the following bands:

| Emolument bands | Number of individuals | |
|--|-----------------------|------|
| | 2004 | 2003 |
| US\$384,616–US\$448,718 (HK\$3,000,001–HK\$3,500,000) | 1 | — |
| US\$448,719–US\$512,821 (HK\$3,500,001–HK\$4,000,000) | 1 | — |
| | 2 | — |

During the year, no emoluments were paid by the Group to the five highest paid individuals, including directors, as inducement to join or upon joining the Group or as compensation for loss of office (2003: US\$Nil).

13. FIXED ASSETS

| US\$'000 | Group | | | | | |
|---|---------|----------------------------|-------------------------|-----------------------------------|----------------|---------|
| | Vessels | Vessels under construction | Leasehold improve-ments | Furniture, fixtures and equipment | Motor vehicles | Total |
| Cost: | | | | | | |
| At 1 January 2004 | 218,013 | 3,075 | — | — | — | 221,088 |
| Additions | 241,128 | 28,145 | 22 | 577 | 70 | 269,942 |
| Acquisition of subsidiaries (Note 29(e)) | 64,500 | 24,231 | 193 | 503 | — | 89,427 |
| Reclassification | 35,700 | (35,700) | — | — | — | — |
| Disposals | — | — | — | (88) | (12) | (100) |
| At 31 December 2004 | 559,341 | 19,751 | 215 | 992 | 58 | 580,357 |
| Accumulated depreciation: | | | | | | |
| At 1 January 2004 | 20,311 | — | — | — | — | 20,311 |
| Charge for the year | 15,474 | — | 192 | 202 | — | 15,868 |
| Disposals | — | — | — | (16) | — | (16) |
| At 31 December 2004 | 35,785 | — | 192 | 186 | — | 36,163 |
| Net book value: | | | | | | |
| At 31 December 2004 | 523,556 | 19,751 | 23 | 806 | 58 | 544,194 |
| At 31 December 2003 | 197,702 | 3,075 | — | — | — | 200,777 |

13. FIXED ASSETS (continued)**NOTES TO THE
ACCOUNTS**

At 31 December 2004, vessels and vessels under construction of net book value totalling US\$533,298,000 (2003: US\$197,702,000) were pledged to banks as securities for bank loans granted to certain subsidiaries of the Group (Note 26(i)).

As at 31 December 2004, the aggregate cost and accumulated depreciation of the vessels leased out by the Group under time charter agreements amounted to US\$57,297,000 (2003: US\$Nil) and US\$477,000 (2003: US\$Nil) respectively.

14. GOODWILL

| | Group |
|--|-----------------|
| | <i>US\$'000</i> |
| Cost | |
| At 1 January 2004 | — |
| Acquisition of subsidiaries (Note 29(e)) | 26,585 |
| At 31 December 2004 | 26,585 |
| Accumulated amortisation | |
| At 1 January 2004 | — |
| Amortisation (Note 5) | 1,329 |
| At 31 December 2004 | 1,329 |
| Net book value | |
| At 31 December 2004 | 25,256 |
| At 31 December 2003 | — |

15. INVESTMENTS IN SUBSIDIARIES

| | Company | |
|--------------------------------|-----------------|-----------------|
| | 2004 | 2003 |
| | <i>US\$'000</i> | <i>US\$'000</i> |
| Unlisted investments, at cost | 130,762 | — |
| Loans advanced to subsidiaries | 101,257 | — |
| | 232,019 | — |

The loans advanced to subsidiaries are unsecured, interest free and are not repayable within one year.

Details of principal subsidiaries of the Company as at 31 December 2004 are set out in Note 33.



NOTES TO THE ACCOUNTS

16. INTERESTS IN JOINT VENTURES

(a) Jointly controlled entities

| | Group | |
|-------------------------------------|------------------|------------------|
| | 2004 US\$'000 | 2003 US\$'000 |
| Share of net assets | 10,157 | — |
| Loan to a jointly controlled entity | 500 | — |
| | 10,657 | — |

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

Details of the jointly controlled entities of the Group at 31 December 2004 are as follows:

| Name | Place of incorporation/ operation | Issued and fully paid up share capital | Interest in ownership/ voting power/ profit sharing | Principal activities |
|--|---|--|--|------------------------------|
| Pacific Basin Logistics Limited (formerly IHC Logistics Limited) | The British Virgin Islands/ Hong Kong | 4 shares of US\$1 each | 50%/50%/50% | Vessels chartering |
| Pacific Basin Bulker (No. 103) Corporation | Republic of Liberia | 200 class 'B' shares of US\$21,917.81 each | 63.5%/50%/63.5% | Investment holding |
| China Line Shipping Limited | Hong Kong/ international | 2 shares of HK\$1 each | 63.5%/50%/63.5% | Vessel owning and chartering |
| Oriental Maritime Shipping Limited | The British Virgin Islands | 10 shares of US\$1 each | 50%/50%/50% | Investment holding |
| Oriental Maritime Chartering Limited | The British Virgin Islands/The People's Republic of China ("PRC") | 10 shares of US\$1 each | 50%/50%/50% | Vessel chartering |
| Claire Shipping Limited | Hong Kong/ international | 1 share of HK\$1 | 50%/50%/50% | Vessel owning and chartering |

All jointly controlled entities are held indirectly by the Company.

16. INTERESTS IN JOINT VENTURES (continued)

NOTES TO THE
ACCOUNTS

(b) Jointly controlled operations

The aggregate amounts of profit and loss recognised in respect of the Group's interests in the jointly controlled operations are as follows:

| | Group | |
|--|--------------|--------------|
| | 2004 | 2003 |
| | US\$'000 | US\$'000 |
| Charter-hire income included in turnover | 4,797 | 4,015 |
| Charter-hire expenses included in direct costs | (2,241) | (2,968) |
| | 2,556 | 1,047 |

In 2003, the Group entered into contractual arrangements with Pacific Basin Chartering Limited for sub-chartering three vessels. Following the Group's Reorganisation on 31 March 2004, Pacific Basin Chartering Limited became a subsidiary of the Group and the results of the three vessels were taken up in full as part of the operating results of the Group. Accordingly, the results attributable to jointly controlled operations as shown above include the Group's share of the results of these vessels up to 30 March 2004 only.

17. INTEREST IN AN ASSOCIATED COMPANY

| | Group | |
|---------------------|----------|----------|
| | 2004 | 2003 |
| | US\$'000 | US\$'000 |
| Share of net assets | 1 | — |

Details of the associated company at 31 December 2004 are as follows:

| Name | Place of incorporation/ operation | Issued and fully paid up share capital | Attributable equity interests indirectly held | Principal activity |
|---|--------------------------------------|--|---|--|
| The London Shipping Consultancy Limited | The United Kingdom | 100 shares of GBP1 each | 49% | Provision of ship consultancy services |

18. INVESTMENT SECURITIES

| | Group | |
|-------------------------------------|------------|----------|
| | 2004 | 2003 |
| | US\$'000 | US\$'000 |
| Unlisted equity securities, at cost | 200 | — |



NOTES TO THE ACCOUNTS

19. DEFERRED LOAN ARRANGEMENT FEES

| | Group | |
|-----------------------|------------------|------------------|
| | 2004 US\$'000 | 2003 US\$'000 |
| At 1 January | 633 | 550 |
| Additions | 1,410 | 148 |
| Amortisation (Note 6) | (96) | (65) |
| Write-off (Note 6) | (1,092) | — |
| At 31 December | 855 | 633 |

20. RESTRICTED BANK DEPOSITS

Bank deposits are pledged to lending banks as securities for loans granted to the Group (Note 26(ii)).

21. INVENTORIES

| | Group | |
|-----------------|------------------|------------------|
| | 2004 US\$'000 | 2003 US\$'000 |
| Bunkers | 5,078 | — |
| Lubricating oil | 1,462 | 528 |
| Marine products | 24 | — |
| | 6,564 | 528 |

At 31 December 2004, the carrying amount of inventories that are stated at net realisable value amounted to US\$24,000 (2003: US\$Nil).

22. TRADE RECEIVABLES

At 31 December 2004, the ageing analysis of trade receivables is as follows:

| | Group | |
|-------------------|------------------|------------------|
| | 2004 US\$'000 | 2003 US\$'000 |
| Less than 30 days | 4,717 | — |
| 31–60 days | 1,978 | — |
| 61–90 days | 347 | — |
| Over 90 days | 613 | — |
| | 7,655 | — |

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

23. AMOUNTS DUE FROM/TO RELATED COMPANIES, AMOUNTS DUE TO THE THEN SHAREHOLDERS AND AMOUNTS DUE FROM SUBSIDIARIES

NOTES TO THE
ACCOUNTS

The amounts are unsecured, interest free and have no fixed terms of repayment.

24. PLEDGED/RESTRICTED BANK DEPOSITS

| | Group | |
|--|--------------|----------|
| | 2004 | 2003 |
| | US\$'000 | US\$'000 |
| Pledged bank deposits in connection with forward exchange facility (<i>note a</i>) | 130 | — |
| Restricted deposits (<i>note b</i>) | 1,780 | — |
| | 1,910 | — |

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

(b) The amounts were retained by certain banks in relation to the loans repayment.

25. TRADE PAYABLES

At 31 December 2004, the ageing analysis of trade payables is as follows:

| | Group | |
|-------------------|--------------|----------|
| | 2004 | 2003 |
| | US\$'000 | US\$'000 |
| Less than 30 days | 2,225 | — |
| 31–60 days | 346 | — |
| 61–90 days | 392 | — |
| Over 90 days | 767 | — |
| | 3,730 | — |



NOTES TO THE ACCOUNTS

26. LONG-TERM BANK LOANS

| | Group | |
|---|------------------|------------------|
| | 2004 US\$'000 | 2003 US\$'000 |
| Secured bank loans not wholly repayable within five years | 370,979 | 145,863 |
| Current portion of long-term bank loans | (36,133) | (10,869) |
| | 334,846 | 134,994 |

The bank loans are secured, inter alia, by the following:

- (i) Mortgages over all the Group's vessels and a vessel under construction (*Note 13*) and certain bank deposits (*Note 20*).
- (ii) Assignments of earnings, insurances and requisition compensations in respect of the vessels.
- (iii) Charges over the shares of certain subsidiaries (*Note 33*).

At 31 December 2004, the Group's bank loans were repayable as follows:

| | Group | |
|----------------------------|------------------|------------------|
| | 2004 US\$'000 | 2003 US\$'000 |
| Within one year | 36,133 | 10,869 |
| In the second year | 33,634 | 10,869 |
| In the third to fifth year | 98,207 | 32,604 |
| After the fifth year | 203,005 | 91,521 |
| | 370,979 | 145,863 |

27. SHARE CAPITAL

NOTES TO THE ACCOUNTS

Authorised share capital

| | Note | No. of shares of US\$0.10 each | | | | Total | US\$'000 |
|--|------|--------------------------------|--------------------|-----------------|-----------------|---------------|----------|
| | | Class A | Class B | Class C | Ordinary shares | | |
| Upon incorporation | (a) | — | — | — | 120,000 | 120,000 | 12 |
| Conversion of shares | (b) | 53,333.40 | 63,999.96 | 2,666.64 | (120,000) | — | — |
| Increase in share capital on 15 March 2004 | (c) | 533,280,666.60 | 639,935,600.04 | 26,663,733.36 | — | 1,199,880,000 | 119,988 |
| Increase in share capital on 1 April 2004 | (d) | 1,066,668,000.00 | 1,279,999,200.00 | 53,332,800.00 | — | 2,400,000,000 | 240,000 |
| Conversion of shares on 14 July 2004 | (h) | (1,600,002,000.00) | (1,919,998,800.00) | (79,999,200.00) | 3,600,000,000 | — | — |
| At 31 December 2004 | | — | — | — | 3,600,000,000 | 3,600,000,000 | 360,000 |

Issued share capital

| | Note | No. of shares of US\$0.10 each | | | | Total | US\$'000 |
|---|------|--------------------------------|------------------|-----------------|-----------------|---------------|----------|
| | | Class A | Class B | Class C | Ordinary shares | | |
| Allotted and issued nil paid | (e) | 53,333.40 | 63,999.96 | 2,666.64 | — | 120,000 | — |
| Issue of shares upon the Exchange of Shares | (f) | 353,341,281.00 | 424,008,738.00 | 17,666,881.00 | — | 795,016,900 | 79,502 |
| Repurchase of shares | (g) | (53,329.40) | (63,990.96) | (2,682.64) | — | (120,003) | — |
| Conversion of shares on 14 July 2004 | (h) | (353,341,285.00) | (424,008,747.00) | (17,666,865.00) | 795,016,897 | — | — |
| Issue of shares for acquisition of subsidiaries | (i) | — | — | — | 221,993,712 | 221,993,712 | 22,199 |
| Issue of shares upon initial public offering | (j) | — | — | — | 250,000,000 | 250,000,000 | 25,000 |
| At 31 December 2004 | | — | — | — | 1,267,010,609 | 1,267,010,609 | 126,701 |

Notes:

- (a) The Company was incorporated on 10 March 2004 with an authorised share capital of US\$12,000 divided into shares of US\$0.10 each.
- (b) Pursuant to a statutory meeting of members of the Company held on 15 March 2004, the Company amended its bye-laws and the authorised share capital of the Company was divided into 53,333.40 Class A shares, 63,999.96 Class B shares and 2,666.64 Class C shares. All shares have the same rights except that:
- (i) Class A shares have 0.00075 votes per share and collectively carry the right to elect and remove two directors.
 - (ii) Class B shares have 0.000312 votes per share and collectively carry the right to elect and remove one director.
 - (iii) Class C shares have 0.015 votes per share and collectively carry the right to elect and remove two directors.



NOTES TO THE ACCOUNTS

27. SHARE CAPITAL (continued)

- (c) Pursuant to a statutory meeting of members of the Company held on 15 March 2004, the Company increased its authorised share capital from US\$12,000 to US\$120,000,000 by the creation of an additional 1,199,880,000 shares of US\$0.10 each.
- (d) By a written resolution of the members of the Company passed on 1 April 2004, the Company further increased its authorised share capital from US\$120,000,000 to US\$360,000,000 by the creation of an additional 2,400,000,000 shares of US\$0.10 each.
- (e) Pursuant to a meeting of the provisional directors held on 15 March 2004, the Company allotted and issued 53,333.40 Class A shares, 63,999.96 Class B shares and 2,666.64 Class C shares nil paid.

Subsequently, pursuant to a board resolution passed on 11 May 2004, the sum of US\$12,000 standing to the credit of the contributed surplus account of the Company was transferred to the capital account to pay up in full all shares issued on 15 March 2004.

- (f) Pursuant to a meeting of the directors held on 29 March 2004, the Company issued an aggregate of 795,016,900 shares at par, which were credited as fully paid, comprising 353,341,281 Class A shares, 424,008,738 Class B shares and 17,666,881 Class C shares, in consideration for the Exchange of Shares as set out in Note 1.
- (g) Pursuant to a board resolution passed on 11 May 2004, the Company re-purchased 53,329.40 Class A shares, 63,990.96 Class B shares and 2,682.64 Class C shares at purchase price of US\$1 in respect of each class of shares by private arrangement.
- (h) At 6:01 a.m. on 14 July 2004, all the authorised and issued Class A, B and C shares of the Company were converted into ordinary shares, with a nominal value of US\$0.10 each.
- (i) Pursuant to the Further Acquisitions as set out in Note 1, effective 31 March 2004, the Company acquired certain subsidiaries in consideration of cash payments and the issue of 221,993,712 shares. Such shares were issued at 6:02 a.m. on 14 July 2004 upon completion of the acquisition.
- (j) Through the public offering of the Company, 250,000,000 ordinary shares of US\$0.10 each were issued at HK\$2.50 each, resulting in a premium of US\$0.22 each and proceeds net of share issuing expenses of approximately US\$71,680,000 were principally used for the acquisition of vessels.
- (k) By a written resolution of the shareholders of the Company dated 17 June 2004, the Share Option Scheme was approved and adopted. Share options were granted to directors, senior management and certain employees on 14 July 2004. The options granted vest over three years. One-third of the options can be exercised one year after the date of grant, one-third two years after the date of grant and one-third three years after the date of grant and all will expire on 13 July 2014. Movements in the number of share options outstanding during the year are as follows:

| | Number of options | | | At 31 December 2004 | Exercise price |
|-------------------|-------------------------|-------------------------------|---------------------------------|---------------------------|-------------------|
| | At 1 January 2004 | Granted during the year | Exercised during the year | | |
| Directors | — | 14,400,000 | — | 14,400,000 | HK\$2.50 |
| Senior management | — | 21,600,000 | — | 21,600,000 | HK\$2.50 |
| Employees | — | 19,500,000 | — | 19,500,000 | HK\$2.50 |
| | — | 55,500,000 | — | 55,500,000 | |

Note: None of the share options were cancelled during the year.

28. RESERVES

**NOTES TO THE
ACCOUNTS**

| US\$'000 | Group | | | | |
|--|------------------|-----------------------------|---------------------|---------------------|----------------|
| | Share premium | Merger reserve (Note) | Exchange reserve | Retained profits | Total |
| At 1 January 2003 | — | (56,606) | — | 7,202 | (49,404) |
| Profit attributable to shareholders | — | — | — | 22,686 | 22,686 |
| Dividend | — | — | — | (13,900) | (13,900) |
| At 31 December 2003 | — | (56,606) | — | 15,988 | (40,618) |
| At 1 January 2004 | — | (56,606) | — | 15,988 | (40,618) |
| Profit attributable to shareholders | — | — | — | 103,512 | 103,512 |
| Premium on issue of shares for acquisition of subsidiaries | 59,114 | — | — | — | 59,114 |
| Premium on issue of shares upon initial public offering | 55,128 | — | — | — | 55,128 |
| Share issuing expenses | (8,448) | — | — | — | (8,448) |
| Exchange differences arising on translation of the accounts of foreign subsidiaries | — | — | 54 | — | 54 |
| Dividends | — | — | — | (62,807) | (62,807) |
| At 31 December 2004 | 105,794 | (56,606) | 54 | 56,693 | 105,935 |
| Representing: | | | | | |
| 2004 Proposed final dividend | | | | 25,990 | |
| Others | | | | <u>30,703</u> | |
| Retained profits as at 31 December 2004 | | | | <u>56,693</u> | |
| Company and subsidiaries | 105,794 | (56,606) | 54 | 54,199 | 103,441 |
| Jointly controlled entities | — | — | — | 2,504 | 2,504 |
| Associated company | — | — | — | (10) | (10) |
| | <u>105,794</u> | <u>(56,606)</u> | <u>54</u> | <u>56,693</u> | <u>105,935</u> |

Note: The merger reserve of the Group represents the difference between the nominal value of the shares of the subsidiaries acquired and the nominal value of the Company's shares issued pursuant to the Exchange of Shares as set out in Note 1 to the accounts.



NOTES TO THE ACCOUNTS

28. RESERVES (continued)

| US\$'000 | Company | | |
|--|------------------|---------------------|----------|
| | Share premium | Retained profits | Total |
| At date of incorporation | — | — | — |
| Profit for the period retained (Note 8) | — | 57,720 | 57,720 |
| Premium on issue of shares for acquisition of subsidiaries | 59,114 | — | 59,114 |
| Premium on issue of shares upon initial public offering | 55,128 | — | 55,128 |
| Share issuing expenses | (8,448) | — | (8,448) |
| 2004 interim dividend paid and payable | — | (31,342) | (31,342) |
| At 31 December 2004 | 105,794 | 26,378 | 132,172 |
| Representing: | | | |
| 2004 Proposed final dividend | — | 25,990 | 25,990 |
| Others | 105,794 | 388 | 106,182 |
| | 105,794 | 26,378 | 132,172 |

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

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

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Operating profit | 111,718 | 27,507 |
| Interest income | (78) | (2) |
| Depreciation | 15,868 | 7,890 |
| Loss on disposal of fixed assets | 68 | — |
| Amortisation of goodwill | 1,329 | — |
| Dividend income from investment securities | (227) | — |
| Exchange differences | 54 | — |
| Operating profit before working capital changes | 128,732 | 35,395 |
| Increase in inventories | (1,449) | (69) |
| Increase in trade and other receivables | (8,672) | (170) |
| Decrease/(increase) in amounts due from related companies | 10,711 | (805) |
| (Decrease)/increase in amounts due to related companies | (4,244) | 3 |
| Increase in trade and other payables | 1,437 | 1,423 |
| Cash generated from operations | 126,515 | 35,777 |

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

NOTES TO THE
ACCOUNTS

(b) Analysis of changes in financing during the year

| | Bank loans US\$'000 | Dividend payable US\$'000 | Share capital including premium US\$'000 |
|--|------------------------|---------------------------------|--|
| At 1 January 2003 | 136,732 | — | 79,502 |
| Dividends declared | — | 13,900 | — |
| Cash inflows/(outflows) | | | |
| Drawdown of bank loans | 19,900 | — | — |
| Repayment of bank loans | (10,769) | — | — |
| Dividends paid | — | (13,900) | — |
| At 31 December 2003 | 145,863 | — | 79,502 |
| At 1 January 2004 | 145,863 | — | 79,502 |
| Dividends declared | — | 62,807 | — |
| Issue of shares for acquisition of subsidiaries | — | — | 81,313 |
| Cash inflows/(outflows) | | | |
| Drawdown of bank loans | 417,879 | — | — |
| Repayment of bank loans | (228,038) | — | — |
| Acquisition of subsidiaries (Note 29(e)) | 35,275 | — | — |
| Dividends paid | — | (49,812) | — |
| Proceeds from initial public offering net of share issuing expenses | — | — | 71,680 |
| At 31 December 2004 | 370,979 | 12,995 | 232,495 |

(c) Analysis of cash and cash equivalents

| | 2004 US\$'000 | 2003 US\$'000 |
|--|------------------|------------------|
| Bank deposits and cash | 47,711 | 8,144 |
| Less: restricted and pledged bank deposits | (6,060) | (2,400) |
| | 41,651 | 5,744 |

(d) Major non-cash transaction

Part of the consideration for the purchase of certain subsidiaries, jointly controlled entities and an associated company upon the Further Acquisitions comprised 221,993,712 ordinary shares in the Company.



NOTES TO THE ACCOUNTS

29. NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT (continued)

(e) Acquisition of subsidiaries

| | 2004 US\$'000 | 2003 US\$'000 |
|--|------------------|------------------|
| Net assets acquired | | |
| Fixed assets (Note 13) | 89,427 | — |
| Interests in jointly controlled entities | 7,782 | — |
| Restricted bank deposits | 3,839 | — |
| Investment securities | 200 | — |
| Inventories | 4,587 | — |
| Trade and other receivables | 9,130 | — |
| Amounts due from related companies | 8,577 | — |
| Cash and bank deposits | 12,158 | — |
| Bank borrowings | (35,275) | — |
| Trade and other payables | (28,311) | — |
| Amounts due to related companies | (4,175) | — |
| Taxation payable | (2,095) | — |
| | 65,844 | — |
| Goodwill (Note 14) | 26,585 | — |
| | 92,429 | — |
| Satisfied by: | | |
| Cash | 11,116 | — |
| Shares of the Company | 81,313 | — |
| | 92,429 | — |

Analysis of the net cash inflow in respect of the purchase of subsidiaries:

| | 2004 US\$'000 | 2003 US\$'000 |
|--|------------------|------------------|
| Cash consideration | (11,116) | — |
| Bank deposits and cash in hand acquired | 12,158 | — |
| Net cash inflow in respect of the purchase of subsidiaries | 1,042 | — |

30. COMMITMENTS

NOTES TO THE
ACCOUNTS

(a) Capital commitments

| | Group | |
|---|------------------|------------------|
| | 2004 US\$'000 | 2003 US\$'000 |
| Contracted but not provided for in relation to vessel acquisitions and shipbuilding contracts | 105,705 | 28,173 |

(b) Commitments under operating leases

(i) The Group as the lessee

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

| | Land and buildings | | Vessels | | Total | |
|---|--------------------|------------------|------------------|------------------|------------------|------------------|
| | 2004 US\$'000 | 2003 US\$'000 | 2004 US\$'000 | 2003 US\$'000 | 2004 US\$'000 | 2003 US\$'000 |
| Not later than one year | 960 | — | 17,600 | 5,895 | 18,560 | 5,895 |
| Later than one year but not later than five years | 1,663 | — | 16,733 | 20,440 | 18,396 | 20,440 |
| Later than five years | — | — | — | 938 | — | 938 |
| | 2,623 | — | 34,333 | 27,273 | 36,956 | 27,273 |

(ii) The Group as the lessor

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

| | 2004 US\$'000 | 2003 US\$'000 |
|---|------------------|------------------|
| Not later than one year | 40,440 | — |
| Later than one year but not later than five years | 17,859 | — |
| | 58,299 | — |

(c) Financial instruments

- (i) At 31 December 2004, the Group had outstanding bunkers swap and fixed price agreement contracts to buy approximately 96,500 metric tonnes ("mt") of bunkers at prices which range from US\$165 to US\$223 per mt, which will expire through December 2007. The commitments were entered to hedge for fluctuation in bunkers price in connection with the Group's long-term cargo contract commitments.



NOTES TO THE ACCOUNTS

30. COMMITMENTS (continued)

(c) Financial instruments (continued)

- (ii) At 31 December 2004, the Group had an outstanding forward exchange contract with a bank to buy approximately Yen4,000,000 (2003: Yen3,140,650,000) and simultaneously sell approximately US\$38,400 (2003: US\$27,753,000) to the bank, which will mature within one year. The contract was entered to hedge for foreign currency operating expenses.
- (iii) At 31 December 2004, the Group had agreements with banks to hedge against three month floating rate LIBOR ("Floating Rate") payments in connection with the Group's long-term bank borrowings, as follows:
 - A notional amount of approximately US\$121 million (2003: US\$Nil) with the Floating Rate capped at approximately 4.9%. These agreements expire in July 2007; and
 - A notional amount of approximately US\$61 million (2003: US\$Nil) with the Floating Rate swapped to fixed rates of approximately 3.5% per annum. These fixed rates are knocked out to the Floating Rate if the Floating Rate exceeds 5% but are capped if the Floating Rate reaches 7%. These agreements expire in July 2009.

31. SIGNIFICANT RELATED PARTY TRANSACTIONS

Other than as disclosed elsewhere in the accounts, the Group has entered into the following significant transactions with related parties during the year:

| | 2004 US\$'000 | 2003 US\$'000 |
|--|------------------|------------------|
| Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") (Note a) | 199 | 70 |
| Administrative service fee received from Epic Shipping (BVI) Limited ("Epic") (Note b) | 118 | — |

Notes:

- (a) The Group has entered into certain insurance contracts for vessels through Sun Hing, a related company in which 35% of its shareholding was held indirectly by Lee Kwok Yin, Simon, a director and a shareholder of the Company.
- (b) The Group has entered into a service agreement with Epic, under which management services provided by the Group's staff members were charged on the basis of the time spent and the hourly rates applied, with effect from 1 April 2004. Both Epic and the Company have common substantial shareholders.

32. SUBSEQUENT EVENTS

Subsequent to 31 December 2004, the Group has entered into certain sale and time charter back agreements with third parties in relation to four vessels. The aggregate net sale proceeds were US\$59.9 million.

33. PRINCIPAL SUBSIDIARIES ENTITIES

At 31 December 2004, the Company has direct and indirect interests in the following subsidiaries:

| Company | Place of incorporation/ operation | Issued and fully paid share capital | Interest held | | Principal activities |
|---|--|---|---------------|------|------------------------------|
| | | | 2004 | 2003 | |
| | | | % | % | |
| <i><u>Shares held directly:</u></i> | | | | | |
| PB Management Holding Limited | The British Virgin Islands | 12,313 shares of US\$1 each | 100 | — | Investment holding |
| PB Vessels Holding Limited | The British Virgin Islands | 7,950,170 shares of US\$1 each | 100 | — | Investment holding |
| <i><u>Shares held indirectly:</u></i> | | | | | |
| Abbot Point Limited ¹ | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Beckley (HK) Limited ¹ | Hong Kong/ international | 3,000,010 ordinary shares of US\$1 each | 100 | — | Vessel owning and chartering |
| Bernard (BVI) Limited | The British Virgin Islands/ international | 5,100,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Cape Flattery Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Cape Knox Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning |
| Cape Scott Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Cape Spencer Shipping Limited ¹ | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Castle Island Shipping Limited ¹ | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |

NOTES TO THE ACCOUNTS



NOTES TO THE ACCOUNTS

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

| Company | Place of incorporation/ operation | Issued and fully paid share capital | Interest held | | Principal activities |
|---|--|---|---------------|------|---------------------------------|
| | | | 2004 | 2003 | |
| | | | % | % | |
| Caterina (BVI) Limited | The British Virgin Islands/ international | 2,500,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Columbia River Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Delphic Shipping (BVI) Limited | The British Virgin Islands/ international | 100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Eastern Venture Corporation | The Republic of Liberia | 10 Class 'A' shares of US\$1 each, 58 Class 'B' shares of US\$50,000 each | 100 | — | Investment holding |
| Everable Assets Limited | The British Virgin Islands/ international | 10 ordinary shares of US\$1 each | 100 | — | Vessel owning and chartering |
| Everclear Shipping (BVI) Limited | The British Virgin Islands/ international | 3,100,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Flinders Island Limited ¹ | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Foreview (HK) Limited ¹ | Hong Kong/ international | 10 Class 'A' shares of US\$1 each, 2,500,000 Class 'B' shares of US\$1 each | 100 | — | Vessel owning and chartering |
| Foreview Holdings Limited | Hong Kong | 2,500,000 ordinary shares of US\$1 each | 100 | — | Investment holding |
| Francesca Shipping (BVI) Limited | The British Virgin Islands/ international | 3,000,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Gold River Shipping Limited ¹ | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

NOTES TO THE
ACCOUNTS

| Company | Place of incorporation/ operation | Issued and fully paid share capital | Interest held | | Principal activities |
|--|---|---|---------------|------|---|
| | | | 2004 | 2003 | |
| | | | % | % | |
| Good Future International Holdings Limited ¹ | The British Virgin Islands/ international | 1 ordinary share of US\$1 | 100 | — | Vessel owning and chartering |
| Great Strength Assets Limited | The British Virgin Islands/ international | 10 ordinary shares of US\$1 each | 100 | — | Vessel owning and chartering |
| Gwenyth Shipping (BVI) Limited | The British Virgin Islands/ international | 100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Helen Shipping (BVI) Limited | The British Virgin Islands/ Hong Kong | 100 shares of US\$0.01 each | 100 | 100 | Vessel chartering |
| ICSM (HK) Limited (formerly IndoChina Ship Management (HK) Limited) | Hong Kong | 100 shares of HK\$1,000 each | 100 | — | Provision of ship management services |
| IHC Chartering (UK) Limited | The United Kingdom | 2 shares of GBP1 each | 100 | — | Vessel chartering |
| International Handybulk Carriers Management Limited | The British Virgin Islands/ Hong Kong | 10 shares of US\$1 each | 100 | — | Provision of shipping management services |
| Investors Choice Limited | The British Virgin Islands | 10 Class 'A' shares of US\$1 each, 1,060 Class 'B' shares of US\$5,000 each | 100 | — | Investment holding |
| Judith Shipping (BVI) Limited | The British Virgin Islands/ international | 3,800,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Keswick Holdings Limited | Hong Kong | 2,000,000 ordinary shares of US\$1 each | 100 | — | Investment holding |



NOTES TO THE ACCOUNTS

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

| Company | Place of incorporation/ operation | Issued and fully paid share capital | Interest held | | Principal activities |
|---|---|--|---------------|------|---------------------------------------|
| | | | 2004 | 2003 | |
| | | | % | % | |
| Keswick Shipping (HK) Limited ¹ | Hong Kong/ international | 10 Class 'A' shares of US\$1 each, 2,000,000 Class 'B' shares of US\$1 each | 100 | — | Vessel owning and chartering |
| Kia Shipping (BVI) Limited | The British Virgin Islands/ international | 2,600,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Labrador Shipping (BVI) Limited | The British Virgin Islands/ international | 3,800,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Majestic Carriers, Inc. | Republic of Liberia/ Hong Kong | 1,000 shares of US\$1 each | 100 | — | Provision of crew manning services |
| Mirs Shipping (BVI) Limited | The British Virgin Islands/ international | 2,100,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Mount Rainier Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning |
| New Majestic International Limited | The British Virgin Islands | 10 Class 'A' shares of US\$1 each, 430 Class 'B' shares of US\$9,418.605 each | 100 | — | Investment holding |
| Newman Shipping (BVI) Limited | The British Virgin Islands/ international | 2,600,100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Oak Harbour Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Othello Shipping (BVI) Limited | The British Virgin Islands/ international | 2,659,300 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

NOTES TO THE
ACCOUNTS

| Company | Place of incorporation/ operation | Issued and fully paid share capital | Interest held | | Principal activities |
|---|--|--|---------------|------|--|
| | | | 2004 | 2003 | |
| | | | % | % | |
| PacBasin Marine Services, Inc. (formerly IndoChina Marine Services, Inc.) | Philippines | 5,000 shares of Peso 100 each | 100 | — | Sale of chemical products |
| PacBasin Ship Management, Inc. (formerly IndoChina Ship Management, Inc.) | Philippines | 250,000 shares of Peso 10 each | 100 | — | Provision of crew manning services |
| Pacific Basin Chartering Limited | The British Virgin Islands/ Hong Kong | 10 shares of US\$1 each | 100 | — | Vessels chartering |
| Pacific Basin Marine Services Limited (formerly IndoChina Marine Services Limited) | Hong Kong | 2 shares of HK\$1 each | 100 | — | Sale of chemical products |
| Pacific Basin Ship Management Limited | Hong Kong | 1 share of HK\$1 | 100 | — | Provision of ship management services to third parties |
| Pacific Basin Shipping & Trading Company Limited | The British Virgin Islands/ Hong Kong | 10 shares of US\$1 each | 100 | — | Provision of ship management services |
| Pacific Basin Shipping (HK) Limited (formerly Pacific Basin Agencies Limited) | Hong Kong | 2 shares of HK\$10 each | 100 | — | Provision of ship agency services |
| Pacific Basin Shipping (Australia) Pty Ltd | Australia | 1 share of AUD1 | 100 | — | Provision of ship consulting services |



NOTES TO THE ACCOUNTS

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

| Company | Place of incorporation/ operation | Issued and fully paid share capital | Interest held | | Principal activities |
|---|---|--|---------------|------|---|
| | | | 2004 | 2003 | |
| | | | % | % | |
| Pacific Basin Shipping (UK) Limited (formerly Pacific Basin (UK) Limited) | The United Kingdom | 2 shares of GBP1 each | 100 | — | Provision of ship consulting services |
| Pacific Basin Shipping (USA) Inc. (formerly IndoChina Ship Management (USA) Inc.) | The United States of America | 100 shares of US\$10 each | 100 | — | Provision of ship management services |
| Pacific Basin Shipping Consulting (Shanghai) Limited ² | PRC | US\$200,000 | 100 | — | Provision of ship consulting services |
| PacMarine Services (HK) Limited | Hong Kong | 2 shares of HK\$1 each | 100 | — | Provision of surveying and consultancy services |
| PacMarine Services (UK) Limited | United Kingdom | 1,000 shares of GBP1 each | 100 | — | Provision of surveying and consultancy services |
| PacMarine Services Pte. Ltd. (formerly PMS Surveying Services Pte Ltd) | Singapore | 1,000 shares of S\$1 each | 100 | — | Provision of surveying and consultancy services |
| PBS Corporate Secretarial Limited | Hong Kong | 1 share of HK\$1 | 100 | — | Provision of secretarial services |
| PMS Services Co., Ltd. | Korea | 10,000 shares of 5,000 Won each | 100 | — | Provision of survey services |
| Pitt Island Limited ¹ | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Port Alice Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Port Angeles Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning |

33. PRINCIPAL SUBSIDIARIES ENTITIES (continued)

**NOTES TO THE
ACCOUNTS**

| Company | Place of incorporation/ operation | Issued and fully paid share capital | Interest held | | Principal activities |
|---|---|--|---------------|------|---------------------------------|
| | | | 2004 | 2003 | |
| | | | % | % | |
| Port Pirie Limited ¹ | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Quincy Shipping (BVI) Limited ¹ | The British Virgin Islands/ international | 100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Riley Shipping (BVI) Limited ¹ | The British Virgin Islands/ international | 10 Class 'A' shares of US\$1 each, 440 Class 'B' shares of US\$10,000 each | 100 | — | Vessel owning and chartering |
| Spencer Shipping (BVI) Limited | The British Virgin Islands/ international | 100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Taylor Shipping (BVI) Limited | The British Virgin Islands/ Hong Kong | 10 shares of US\$1 each | 100 | — | Vessel chartering |
| Thompson Shipping (BVI) Limited | The British Virgin Islands/ international | 100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |
| Uhland Shipping (BVI) Limited | The British Virgin Islands/ Hong Kong | 100 shares of US\$0.01 each | 100 | 100 | Vessel chartering |
| Union Bay Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning |
| Verner Shipping (BVI) Limited | The British Virgin Islands/ Hong Kong | 100 shares of US\$0.01 each | 100 | 100 | Vessel chartering |
| Wexford Investments Limited | Hong Kong/ international | 1 share of HK\$1 | 100 | — | Vessel owning and chartering |
| Wharton Shipping Limited ¹ | The British Virgin Islands/ international | 100 shares of US\$0.01 each | 100 | 100 | Vessel owning and chartering |

Notes:

¹ Shares of these subsidiaries have been pledged to banks as security for loan facilities granted (Note 26(iii)).

² Pacific Basin Shipping Consulting (Shanghai) Limited is a wholly foreign-owned enterprise established in the PRC, with registered capital of US\$200,000 fully paid up by the Group.

34. APPROVAL OF ACCOUNTS

The accounts were approved by the Board of Directors on 1 March 2005.