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Introduction

On 1 January 2005, a number of new and revised Hong Kong Financial Reporting Standards ("HKFRS") and Hong Kong Accounting Standards ("HKAS") (collectively "new HKFRS") came into effect. The resulting changes in accounting treatment and presentation of various profit and loss and balance sheet items may render certain comparative figures not strictly comparable. Details of changes are shown in Note 2.2 to the audited consolidated accounts of this Annual Report.

The Company undertook a reorganisation during 2004 in the preparation for the listing of the shares of the Company. The Group's profit and loss account for the twelve months ended 31 December 2004 therefore consists of:

(a) Results for the twelve months ended 31 December 2004 in the case of the companies pursuant to the transfer of PB Vessels Holding Limited and all its subsidiaries into the Company through an exchange of shares, as detailed in the prospectus of the Company dated 30 June 2004 (the "Prospectus"); and

(b) Consolidated results for the nine month period from 1 April to 31 December 2004 for certain vessel holding companies and ship management companies as set out in the Prospectus.

Review of Income

The Group is principally engaged in the provision of dry bulk shipping services through the operation of a fleet of vessels. During the year ended 31 December 2005, turnover was US$433.7 million as compared with 2004 of US$302.2 million. Time charter equivalent earnings were US$264.7 million as compared with 2004 of US$188.9 million. Net profit attributable to shareholders increased to US$147.1 million from US$103.6 million in 2004.

Turnover includes revenues earned from all the vessels in the IHC Pool, including the managed vessels, and is shown gross of voyage-related expenses. Approximately 97.4% of turnover was generated from the employment of the Group's owned and chartered fleet and the remaining 2.6% was generated from the provision of commercial and technical management services for third party vessels and revenues from marine services businesses. Voyage-related expenses relate primarily to commissions, ships' bunkers, port-related costs and short term hire expenses of chartered-in vessels. IHC Pool paid to other pool members freight and charter-hire net of voyage-related expenses which were calculated based on the number of pool points attributable to the vessels participating in the pool owned by the other pool members. The total amount of voyage-related expenses and the amounts payable to other pool members deducted from turnover was US$169.0 million (2004: US$113.4 million), resulting in time charter equivalent earnings for the Group of US$264.7 million (2004: US$188.9 million).

In 2005, the Group achieved an average daily charter rate from its fleet of owned and chartered handysize vessels of approximately US$17,100, compared with approximately US$17,900 in 2004.

The average number of owned and finance leased vessels increased to 32 in 2005 from 22 in 2004. The average number of long term chartered-in vessels in 2005 was nine as compared to six in 2004.

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Direct Costs

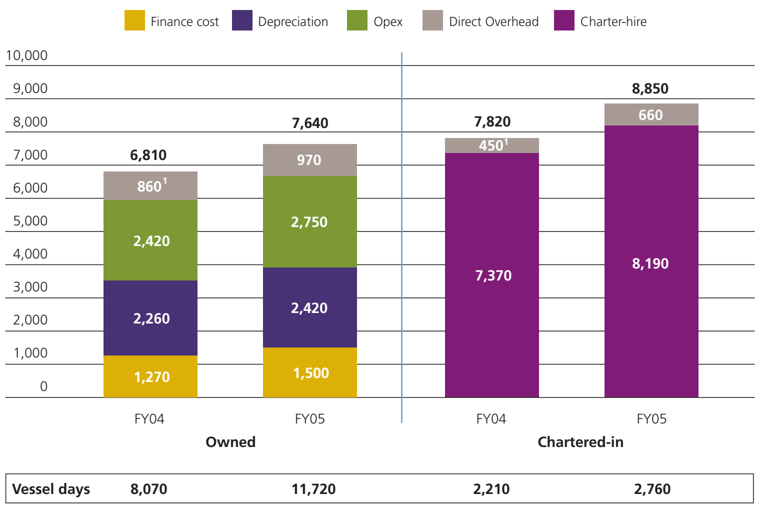
Direct costs in 2005 were US$114.8 million (2004: US$69.0 million). Direct costs include charter hire expenses of vessels held under operating leases, vessel operating costs for owned and finance leased vessels, cost of marine products sold, cost of marine services, and an overhead allocation of US$20.7 million (2004: US$11.0 million) representing shore-based costs of staff, offices and related expenses directly attributable to both the employment and operation of the owned and chartered fleet and the generation of marine service businesses.

Vessel charter-hire expenses increased to US$29.5 million in 2005 from US$18.7 million in 2004. This increase was a result of the increase in the average number of vessels chartered-in under operating leases in 2005.

Depreciation expenses increased to US$28.7 million in 2005 from US$18.3 million in 2004 primarily from the increase in the average number of vessels in the Group's owned fleet between 2004 and 2005. As a result of the adoption of HKAS 16 "Property, Plant & Equipment" which became effective 1 January 2005, the Group has changed the accounting policy in relation to drydocking costs. Drydocking costs were previously charged to the profit and loss account when incurred but are now treated as component costs of vessels and are depreciated over their estimated useful lives. This policy applies to previous accounting periods and led to an increase in depreciation expenses in 2005 and 2004 of US$5.1 million and US$2.8 million respectively.

The effect of the increase in the average number of vessels in the Group's owned (including finance leased) fleet, between 2004 and 2005, is also reflected in the increase in vessel operating costs, including crew expenses, insurance, repairs and maintenance and other miscellaneous running costs to US$31.9 million in 2005 from US$19.3 million in 2004.

Vessel costs can be expressed on a daily basis as follows:



[1] *Adjusted for the Company's reorganisation in 2004.*

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General and Administrative Expenses

General and administrative expenses were US$11.8 million in 2005 as compared with US$8.5 million in 2004. The increase was largely due to the Group's reorganisation effective 31 March 2004 which resulted in the acquisition of the management companies and which gave rise in 2005 to a full year costs (2004: nine months), coupled with managing an expanded fleet and a larger international presence. These expenses include Directors, senior management, key staff and administrative staff costs of US$8.0 million (2004: US$5.2 million) and other administrative and office expenses of US$3.8 million (2004: US$2.0 million). With the adoption of HKFRS 3 "Business Combinations" which became effective 1 January 2005, there was no amortisation of goodwill in 2005 (2004: US$1.3 million).

Finance Costs

Finance costs of US$17.9 million consist of interest payments and other finance charges of US$18.9 million, offset by unrealised gains on interest rate swaps of US$1.0 million, the recognition of which is in accordance with the new HKFRS and detailed in Note 2.2 to the audited consolidated accounts in this Annual Report. Interest payments of US$15.7 million consist of interest payments on bank borrowings used to finance the Group's vessels of US$11.5 million (2004: US$8.7 million) and finance lease charges of US$4.2 million (2004: US$Nil). The increase in interest payments on bank borrowings in 2005 was in part attributable to the higher average bank borrowings outstanding which increased to US$266.1 million in 2005 from US$229.3 million in 2004, although bank borrowings had been reduced to nil by the year end. Average interest rates on bank borrowings were approximately 4.3% in 2005 as compared to approximately 3.7% in 2004.

Finance lease charges in 2005 were US$4.2 million as compared to nil in 2004. During 2005, the Group sold and bareboat leased back 17 of its vessels for periods of 10 to 12 years. Proceeds from the sales of US$318.0 million were used to repay bank borrowings on those vessels and to prepay

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other bank debts. Following the prepayments, the Group had no outstanding bank borrowings on all its remaining owned vessels at 31 December 2005. In accordance with HKAS 17 "Leases", finance lease accounting has been adopted for these transactions, which means that the balance sheet continues to show the net carrying value of these vessels, and the current and long term liabilities in aggregate include finance lease obligations of US$318.0 million. There is no recognition of any gain or loss on the disposal of the 17 vessels. The charter hire payments, made every quarter, arising under the bareboat charterparties will be accounted for as a combination of repayments of finance lease obligations in the balance sheet and finance lease charges in the profit and loss account. Finance lease charges can be expressed as interest rates, fixed for the period of the leases. Average interest rates on finance leases were approximately 6.7% in 2005.

Gains on Disposal of Fixed Assets

Gains on disposal of fixed assets of US$23.5 million were recognised in 2005 (2004: US$Nil). The Group sold and leased back seven of its vessels. Proceeds from these sales of US$139.5 million were used to repay bank borrowings on those vessels and to prepay other bank debts. In accordance with HKAS 17 "Leases", operating lease accounting has been adopted for these transactions with the vessels being treated as sold, the gain or loss on disposal being recognised immediately and subsequent charter hire receipts being recognised as revenue. In addition, the Group long term leased out one of its owned vessels. In accordance with HKAS 17 "Leases", finance lease accounting has been adopted for this transaction, which means that the vessel was treated as sold with a gain on disposal recognised in the profit and loss account. The finance lease receivables of US$15.1 million are included in current and non-current trade and other receivables in the balance sheet. The charter hire payments, receivable every quarter, under the long term lease charterparty will be accounted for as a combination of settlement of finance lease receivables in the balance sheet and finance lease interest income in the profit and loss account.

Cash Flow

Net cash generated from operating activities in 2005 amounted to US$173.3 million (2004: US$130.2 million).

Net cash generated from investing activities was US$24.7 million in 2005, primarily as a result of the proceeds from the sale of vessels of US$139.5 million, offset by payments for vessels of US$121.2 million. Net cash used in investing activities was US$273.2 million in 2004, primarily as a result of purchases of vessels of US$274.4 million.

Net cash used in financing activities was US$157.5 million in 2005, primarily as a result of the repayment and voluntary prepayment of bank borrowings of US$420.0 million, the payment of dividends of US$88.5 million, partially offset by the sale proceeds under finance leases of US$318.0 million and draw down of additional bank borrowings for the acquisition of vessels of US$48.2 million. In 2004, net cash generated from financing activities was US$178.9 million, primarily as a result of net additional bank borrowings for the acquisition of vessels of US$188.4 million, partly

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offset by the payment of dividends by companies now comprising the Group to the then shareholders prior to the Group's reorganisation in March 2004.

At 31 December 2005, the Group had net working capital of US$71.9 million excluding long term lease liabilities repayable within one year of US$14.9 million. The primary sources of liquidity comprised bank balances and cash of US$83.7 million and unutilised committed and secured bank borrowing facilities of US$111.7 million. The Group's primary liquidity needs are to fund general working capital requirements (including lease commitments), fleet expansion and other capital expenditure.

Indebtedness

The indebtedness of the Group solely comprises lease liabilities of US$316.9 million, US$14.9 million of which represents the current portion that is repayable within one year from the balance sheet date. Bank borrowings decreased from US$370.1 million at 31 December 2004 to nil at 31 December 2005. The decrease is because the Group both repaid and prepaid bank borrowings following the sale and charter back of vessels during the year. At 31 December 2005, all outstanding lease liabilities will expire between 2015 and 2017.

At 31 December 2005, the Group had unutilised committed bank borrowing facilities of US$111.7 million. These facilities are available to finance the Group's newbuilding commitments and other vessel acquisitions to which the Group may be committed in the future.

At 31 December 2005, the Group's gearing ratio expressed as borrowings and lease liabilities, net of cash, as a percentage of fixed assets (based on net book values) and vessel finance lease receivables was 46.2% (2004: 59.3%).

Hedging

In 2005, the Group hedged its exposure to interest rate fluctuations by way of interest rate swaps and cap arrangements with banks which are detailed in Note 11 to the audited consolidated accounts in this Annual Report. In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", the aforesaid arrangements did not qualify for hedge accounting and as a result, gains or losses arising from a change in the fair value are recognised in the profit and loss account.

At 31 December 2005, the Group had bunker swap and forward contracts to buy approximately 82,900 metric tonnes of bunkers at fixed prices. These contracts will expire through December 2008. These commitments were made to hedge the Group's exposure to fluctuations in bunker prices in connection with the Group's long term cargo contract commitments. In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", the aforesaid contracts did not qualify for hedge accounting and as a result, gains or losses arising from a change in the fair value are recognised in the profit and loss account.

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At 31 December 2005, the Group had outstanding forward foreign exchange contracts with a bank to buy approximately Yen2.5 billion and simultaneously to sell US$24.8 million for the acquisition of a vessel denominated in Japanese Yen. In accordance with HKAS 39 "Financial Instruments: Recognition and Measurement", the aforesaid contract is part of a hedging relationship and as a result, a change in the fair value is recognised directly in reserves.

Lease Commitments

The Group's charter in commitments under operating leases as at 31 December 2005 stood at US$223.1 million as compared with US$34.3 million at 31 December 2004. The increase was mainly due to the sale and charter back of seven vessels during the year treated as operating leases.

Capital Expenditure

In 2005, capital expenditure, mainly comprising vessel acquisitions and instalments on newbuildings, was US$121.2 million.

At 31 December 2005, the Group had non-cancellable commitments for the construction of six new handysize vessels and one second hand handysize vessel for delivery to the Group between July 2006 and January 2009, with an aggregate unpaid cost of approximately US$158.9 million. Unpaid costs are net of progress payments and prepayments. Finance for such vessel commitments will come from cash generated from the Group's operations, existing unutilised bank facilities and additional long term borrowings to be arranged, as required.

Directors' Opinion on the Working Capital Available to the Group

The Directors are of the opinion that, taking into consideration the financial resources available to the Group, including internally generated funds and the available bank facilities, the Group has sufficient working capital to satisfy its present requirements.

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Staff

As at 31 December 2005, the Group employed a total of 219 full time shore-based staff in offices in Hong Kong, Shanghai, Singapore, London, Dalian, Seoul, Tokyo, Beijing, Melbourne, Vancouver, Mumbai, Bad Essen and Karachi.

The Group incurred total staff costs of approximately US$23.4 million for the year ended 31 December 2005, representing 5.4% of the Group's turnover for the year.

Remuneration of the Group's employees includes basic salaries, bonuses and long term incentives. Employees are remunerated on a fixed salary basis and are eligible for a discretionary bonus (based on both the Group's and individual's performance for the year) and performance-related bonuses if certain financial and other targets, which are set annually by the Board, are achieved.

The Group's principal retirement benefit scheme is the Mandatory Provident Fund Scheme (the "MPF Scheme") provided under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those staff employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme under which the employer and its employees are each required to make contributions to the scheme of 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. 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.

Following the approval of shareholders at a special general meeting convened on 8 June 2005, the Company's share option scheme (now called the "Long Term Incentive Scheme") was amended to allow the Company to award restricted shares and restricted units as an alternative, or in addition, to granting share options.

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