

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited accounts of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

Principal Activities and Analysis of Operations

The principal activity of the Company is investment holding. The activities of the Company's subsidiaries (set out in Note 32 to the accounts) are primarily ship owning and ship chartering. An analysis of the Group's performance for the year by business segment is set out in Note 5 to the accounts.

Results and Appropriations

The results of the Group for the year are set out in the consolidated profit and loss account on page 69.

The Group's dividend policy is to pay out by way of interim and final dividends of not less than 50% of profits available for distribution in each financial year.

Consistent with the above dividend policy and taking into consideration the Group's performance and current financial position, the Directors have recommended the payment of a final dividend of 35 HK cents per share for the year ended 31 December 2005. When this proposed final dividend is aggregated with the interim dividend of 30 HK cents per share declared on 5 September 2005, the total payout of 65 HK cents per share represents 73% of the Group's profits for the year ended 31 December 2005. The proposed final dividend for 2005 of 35 HK cents per share is to be considered at the 2006 Annual General Meeting scheduled for 7 April 2006.

Reserves

Movements in the reserves of the Group and of the Company during the year are set out in Note 19 to the accounts.

Donations

Charitable and other donations made by the Group during the year amounted to US\$99,000.

Fixed Assets

Details of the movements in fixed assets of the Group are set out in Note 6 to the accounts.

Share Capital

Details of the movements in share capital of the Company are set out in Note 18 to the accounts.

Distributable Reserves

Distributable reserves of the Company at 31 December 2005, calculated according to the Companies Act 1981 of Bermuda, amounted to US\$104.3 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.

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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 on page 128.

Purchase, Sale or Redemption of Securities

During the year, neither the Company nor any of its subsidiaries had sold or redeemed any of the Company's shares.

Long Term Incentive Scheme

Share options and share awards are granted to executive Directors, senior management and other employees under a share option scheme amended and approved by shareholders on 8 June 2005 (the "Long Term Incentive Scheme" or "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, employees, secondees, shareholders, business partners, agents, consultants or representatives, customers of the Group or of any Controlling Shareholder, suppliers of goods and services and persons or entities that provide research, development, advisory, consultancy or professional services to the Group or any Controlling Shareholder, as an incentive or reward for their contributions to the Group.

(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 9.87% of the shares in issue as at the date of this Annual Report. As at the date of this Annual Report, 60,500,000 options and 4,799,999 restricted shares were granted under the LTIS which represents 5.09% 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 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 options under 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 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 option; and (iii) the nominal value of the shares.

All notices to exercise 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.

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(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 to the LTIS.

(f) *Remaining life of the scheme*

The LTIS will remain in force unless terminated by resolutions in general meeting or the Board at any time. Upon termination, no further share options or share awards shall be offered under 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 2005 under the LTIS are as follows:

(i) Share options

	Number of share options				Exercise price	Weighted average closing price ³
	Held at 1 January 2005	Granted during the year	Exercised during the year	Held at 31 December 2005		
					HK\$	HK\$
Executive Directors						
Christopher R. Buttery	4,800,000 ¹	–	1,600,000	3,200,000	2.50	3.98
Richard M. Hext	–	5,000,000 ²	–	5,000,000	3.875	NA
Mark M. Harris	4,800,000 ¹	–	1,600,000	3,200,000	2.50	4.00
Paul C. Over	4,800,000 ¹	–	1,600,000	3,200,000	2.50	3.98
	<u>14,400,000</u>	<u>5,000,000</u>	<u>4,800,000</u>	<u>14,600,000</u>		
Senior Management	10,800,000 ¹	–	4,700,000	6,100,000	2.50	3.87
Key Staff	8,400,000 ¹	–	1,480,000	6,920,000	2.50	3.74
Other Employees	21,900,000 ¹	–	4,750,000	17,150,000	2.50	3.85
	<u>55,500,000</u>	<u>5,000,000</u>	<u>15,730,000</u>	<u>44,770,000</u>		

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Notes:

- (1) Granted on 14 July 2004, the date of listing of the Company, and vesting over a three year period and will expire on 14 July 2014 unless otherwise stated. One-third of the options may 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 with the exception of one senior manager whose unvested share options became fully vested upon termination of his employment contract and are exercisable for a period of 12 months from that date.
- (2) Granted on 5 April 2005 and vesting over a five year period. 1,000,000 share options are exercisable in each of the following periods: (i) from 5 April 2006 to 4 April 2015, (ii) from 5 April 2007 to 4 April 2015, (iii) from 5 April 2008 to 4 April 2015, (iv) from 5 April 2009 to 4 April 2015, and (v) from 5 April 2010 to 4 April 2015. The closing price of the shares of the Company immediately before the 5,000,000 options were granted on 5 April 2005 was HK\$3.85.
- (3) This represents the weighted average closing price of the shares immediately before the dates on which the options were exercised.

No share options lapsed or were cancelled under the LTIS during the year under review.

(ii) Restricted share awards

	Number of restricted share awards			
	Held at 1 January 2005	Granted during the year	Vested during the year	Held at 31 December 2005
Executive Directors				
Richard M . Hext	–	3,333,333 ¹	–	3,333,333
Key Staff	–	866,666 ²	288,890	577,776
Other Employees	–	600,000 ²	200,001	399,999
	–	<u>4,799,999</u>	<u>488,891</u>	<u>4,311,108</u>

Notes:

- (1) Granted on 8 June 2005 and vesting in equal amounts on 5 April 2006, 2007, 2008, 2009 and 2010.
- (2) Granted on 8 June 2005 and vesting in equal amounts on 30 November 2005, 2006 and 2007.

The closing price of the shares of the Company immediately before the 4,799,999 restricted share awards were granted on 8 June 2005 was HK\$3.60.

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(h) *Valuation of the Share Options*

Based on reports prepared by Watson Wyatt Hong Kong Limited, the fair market values of the share options granted on 14 July 2004 and on 5 April 2005 under the LTIS based on the binomial option pricing model are as follows:

Tranche	Exercise period	Fair value per share option	Number of share options as at date of grant
HK\$			
Share options granted on 14 July 2004:			
1	14 July 2005 to 13 July 2014	0.838	18,500,000
2	14 July 2006 to 13 July 2014	0.839	18,500,000
3	14 July 2007 to 13 July 2014	0.825	18,500,000
			<u>55,500,000</u>
Share options granted on 5 April 2005:			
1	5 April 2006 to 4 April 2015	1.306	1,000,000
2	5 April 2007 to 4 April 2015	1.307	1,000,000
3	5 April 2008 to 4 April 2015	1.287	1,000,000
4	5 April 2009 to 4 April 2015	1.251	1,000,000
5	5 April 2010 to 4 April 2015	1.203	1,000,000
			<u>5,000,000</u>

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.

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Directors

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

	Date of appointment					Terms of appointment
	Board	Audit Committee	Remuneration Committee	Nomination Committee	Executive Committee	
Executive Directors						
Christopher R. Buttery (Chairman)	15 March 04	–	–	–	27 July 05	3 years from 1 April 2004
Richard M. Hext ² (Deputy Chairman)	5 April 05	–	–	–	27 July 05	3 years from 5 April 2005
Mark M. Harris ³ (Group Chief Executive)	15 March 04	–	–	–	27 July 05	3 years from 1 April 2004
Paul C. Over	15 March 04	–	–	–	–	3 years from 1 April 2004
Non-executive Directors						
Lee Kwok Yin, Simon ⁴	15 March 04	–	15 September 04	1 March 05	–	until 5 June 2006
Brian P. Friedman ⁴	15 March 04	–	15 September 04	1 March 05	–	until 5 June 2006
James J. Dowling	15 March 04	–	–	–	–	resigned on 5 April 2005
Independent non-executive Directors						
Patrick B. Paul – Chairman of Audit Committee	25 March 04	18 May 04	10 June 04	30 November 04	–	3 years from 28 May 2004
Robert C. Nicholson – Chairman of Remuneration Committee & Chairman of Nomination Committee	25 March 04	18 May 04	10 June 04	30 November 04	–	3 years from 28 May 2004
The Earl of Cromer	25 March 04	18 May 04	10 June 04	30 November 04	–	3 years from 28 May 2004

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. Richard M. Hext will assume the position of Chief Executive Officer from the conclusion of the forthcoming 2006 Annual General Meeting and at the same time resign as Deputy Chairman. The position of Deputy Chairman will be assumed by Mr. Daniel R. Bradshaw who will be appointed as a non-executive Director from the conclusion of the forthcoming 2006 Annual General Meeting.
- (3) Mr. Mark M. Harris will resign as executive Director and Group Chief Executive from the conclusion of the forthcoming 2006 Annual General Meeting.
- (4) Messrs. Lee Kwok Yin, Simon and Brian P. Friedman were re-nominated as non-executive Directors in June 2005 for a further 12 months until 5 June 2006.

Pursuant to Bye-laws 87(1) & (2) of the Company, Christopher R. Buttery, Paul C. Over (both having been longest in office) and The Earl of Cromer will retire at the forthcoming 2006 Annual General Meeting and, being eligible, will offer themselves for re-election.

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In accordance with Bye-law 86(2) of the Company, Lee Kwok Yin, Simon and Brian P. Friedman (the two non-executive Directors) had their terms of appointment extended for a further 12 months by the Board, and, being eligible, will offer themselves for re-election at the forthcoming 2006 Annual General Meeting.

Directors' Service Contracts

None of the Directors who are proposed for re-election at the forthcoming 2006 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 on pages 24 to 29.

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 2005, 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, as recorded in the register maintained by the Company under Section 352 of the SFO or as notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") were as follows:

Name of Director	Corporate interests	Personal interests	Trust & similar interests	Share options	Approximate percentage of issued share capital of the Company	
					Total share interests	
Christopher R. Buttery	—	5,626,612	18,386,905 ²	3,200,000 ¹	27,213,517	2.12%
Richard M. Hext	—	3,333,333 ¹	—	5,000,000 ¹	8,333,333	0.65%
Mark M. Harris	6,282,261 ⁵	12,121,001	—	3,200,000 ¹	21,603,262	1.68%
Paul C. Over	—	—	23,535,041 ³	3,200,000 ¹	26,735,041	2.08%
Lee Kwok Yin, Simon	—	—	60,807,220 ⁴	—	60,807,220	4.74%

Notes:

- (1) Share options and restricted share awards were granted to certain Directors under the LTIS and have been disclosed from page 57 to page 59 under Long Term Incentive Scheme of this Report of the Directors.
- (2) 18,386,905 shares are owned by Turnwell Limited. Mr Buttery is deemed to be interested in the entire share capital of Turnwell Limited under the SFO as its shares are held by a discretionary trust set up by him and the discretionary objects of which include himself and his family members.

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- (3) 23,535,041 shares are owned by Ansleigh Limited. Mr Over is deemed to be interested in the entire share capital of Ansleigh Limited under the SFO as its shares are held by a discretionary trust set up by him and the discretionary objects of which include himself and his family members.
- (4) 19,935,122 shares, 1,059,725 shares, 22,335,373 shares, 7,377,000 shares and 10,100,000 shares are beneficially owned by Asia Distribution Limited, Firelight Investments Limited, Eagle Pacific International Limited, Wellex Investment Limited and Fortress Eagle Investment Limited, respectively. These companies are controlled by discretionary trusts established by Mr Lee, the discretionary objects of which include his family members.
- (5) Dragon Island Shipping Limited, which is controlled by Mr Harris, owns 6,282,261 shares in the Company.

All the interests stated above represent long positions. No short positions were recorded in the register maintained by the Company under section 352 of the SFO as at 31 December 2005.

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

Substantial Shareholders' Interests and Long 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 2005, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name	Capacity/Nature of interest		Number of shares	Approximate percentage of issued share capital of the Company
JP Morgan Chase & Co. ¹	Investment manager and approved lending agent	Long Positions	110,200,000	8.59%
		Short Positions	–	
Pembroke Shipping Limited	Beneficial owner	Long Positions	87,055,253	6.79%
		Short Positions	–	

Note:

- (1) The shares held by JP Morgan Chase & Co. are held in the capacities of investment manager (relating to 43,098,000 shares) and custodian corporation/approved lending agent (relating to 67,102,000 shares).

Management Contracts

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

Major Customers and Suppliers

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

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Connected Transactions

During the year ended 31 December 2005, the Group had the following connected transaction that was subject to the Listing Rules' reporting requirements for disclosure in this Annual Report:

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

Sun Hing has been appointed as a provider of insurance services to the Group on a non-exclusive basis, pursuant to an agreement dated 4 June 2004 which expires on 31 December 2006. Sun Hing has provided such services in connection with arranging insurance policies in respect of vessels owned, chartered or managed by the Group. Sun Hing has also provided insurance services in respect of the general affairs of the Group. Such services were provided to the Group on commercial terms and in the ordinary course of Sun Hing's business.

Sun Hing is approximately 35% owned indirectly by, and therefore an associate (as defined under the Listing Rules) of, Lee Kwok Yin, Simon, one of the Directors of the Company.

For the year ended 31 December 2005, premiums payable to Sun Hing amounted to US\$0.2 million which is within the approved cap of US\$0.7 million as disclosed in the Company's prospectus dated 30 June 2004.

Pursuant to the waiver letter issued by the Stock Exchange in respect of the above transaction, this connected transaction could be exempted if certain conditions are fulfilled based on the confirmation from independent non-executive Directors that this transaction satisfies the following conditions:

- (a) the continuing connected transaction disclosed above is entered into by the Group in the ordinary and usual course of business;
- (b) the continuing connected transaction has been entered into on an arm's length basis and conducted either on normal commercial terms, or where there is no available comparison, on terms no less favourable to the Group than those available to or from independent third parties; and
- (c) the continuing connected transaction has been entered into in accordance with the agreements governing such transactions on terms that are fair and reasonable and in the interests of the shareholders of the Company as a whole.

The independent non-executive Directors of the Company are satisfied that the above conditions had been satisfied in 2005.

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Based on the work performed, the auditors of the Company have reported that the aforesaid continuing connected transaction (a) has been approved by the Board of the Company; (b) has been entered into in accordance with the terms of the relevant agreement governing the transaction, based on the sample selected; and (c) has not exceeded the caps allowed by the Stock Exchange in the previous waiver.

Compliance with the Code on Corporate Governance Practices

Throughout the year, the Company has complied with all code provisions of the Code on Corporate Governance Practices 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 accounts have been audited by PricewaterhouseCoopers who retire and, being eligible, offer themselves for re-appointment.

Public Float

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

By Order of the Board



Andrew T. Broomhead

Company Secretary

Hong Kong, 6 March 2006