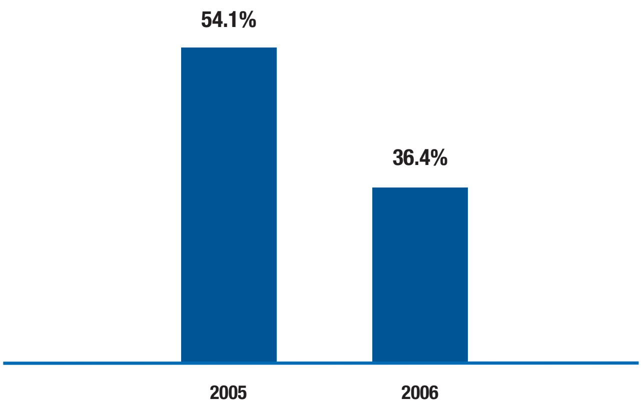
Financial Review

Turnover in 2006 was US$620.4 million (2005: US$433.7 million). Time charter equivalent earnings and shipping management income were US$344.8 million (2005: US$264.7 million). Net profit attributable to shareholders was US$110.3 million (2005: US$147.1 million). The reduction in net profit compared to 2005 was mainly due to a lower daily charter rate and increased daily vessel operating costs for the handysize vessels, partially offset by an increase in the number of vessels controlled in the fleet. The net profit can be expressed as a return on the average equity of US$303.0 million (2005: 271.8 million) and was 36.4% in 2006 (2005: 54.1%) as shown in the graph below:

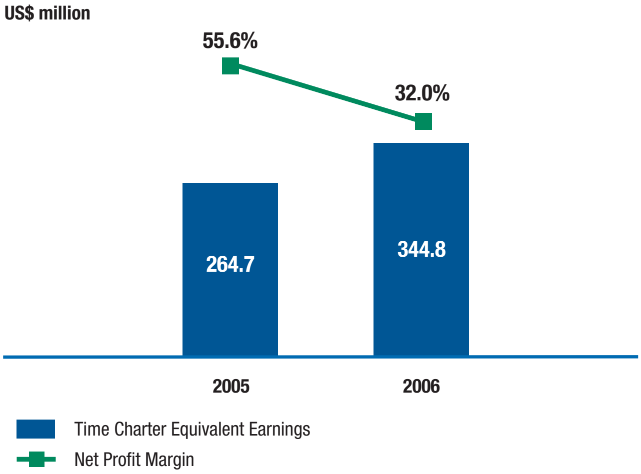
Income

The Group's owned and chartered fleet generated US$609.8 million (2005: US$422.6 million) or 98.3% (2005: 97.4%) of turnover and the remaining 1.7% was derived from commercial and technical management services for third party vessels and revenues from marine services businesses. Turnover is shown gross of voyage-related expenses, amounts payable to other pool members (based on the number of pool points attributable to their vessels) and any change in the fair value of bunker swap and forward contracts. Voyage-related expenses related primarily to commissions, ships' bunkers, port-related costs and hire expenses of short term chartered vessels.

Return on Average Equity Employed during the Year



Time Charter Equivalent Earnings Versus Net Profit Margin



The change in the time charter equivalent earnings can be summarised in the table below:

US$ million	Handysize	Handymax	Management income	Total
Time Charter Equivalent earnings 2005	**247.5**	**6.1**	**11.1**	**264.7**
Change in number of revenue days	36.9	36.6	–	73.5
Change in daily charter rates	(36.4)	43.4	–	7.0
Others	–	–	(0.4)	(0.4)
Time Charter Equivalent earnings 2006	**248.0**	**86.1**	**10.7**	**344.8**

The table below shows the divisional performance over the year:

	2005	1H06	2H06	**2006**	Year on year % Change
Handysize					
Revenue days (days)	14,260	7,570	8,850	**16,420**	+ 15%
Daily charter rates (US$)	17,100	14,400	16,290	**15,420**	- 10%
Daily vessel operating costs (US$)	7,870	8,540	9,160	**8,880**	+ 13%
Handymax					
Revenue days (days)	720	1,680	3,370	**5,050**	+602%
Daily charter rates (US$)	8,460	14,150	17,420	**16,330**	+ 93%
Daily vessel operating costs (US$)	8,400	15,920	17,760	**17,150**	+104%

Direct Costs

Direct costs in 2006 were US$215.8 million (2005: US$114.8 million). This increase was mainly because vessel charter-hire expenses for vessels under operating lease increased to US$120.0 million (2005: US$29.5 million). This reflected the increase in the average number of vessels chartered under operating leases, predominantly from the handymax fleet, and the increase in the average daily charter rate of handysize vessels.

Depreciation expenses increased to US$32.2 million (2005: US$28.7 million) primarily due to the increase in the average number of owned vessels.

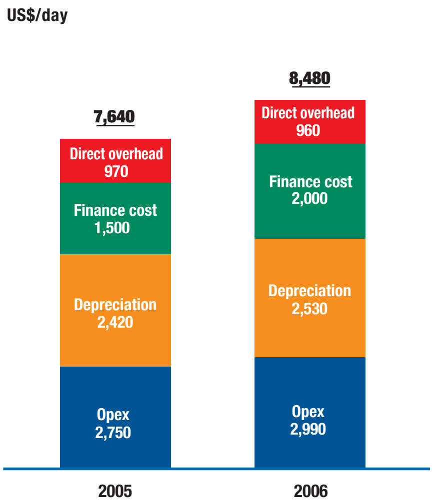
Vessel operating costs for owned and finance leased vessels increased to US$38.4 million (2005: US$31.9 million). This was due to the increase in the average number of vessels from 33 to 35 in the Group's owned fleet between 2005 and 2006, the increase in crew wages, and higher insurance premiums due to the higher value of the vessels.

Direct costs also include the cost of marine products sold, cost of marine services, and an overhead allocation of US$23.5 million (2005: US$20.7 million) representing shore based staff costs, office and related expenses directly attributable to the management of the owned and chartered fleet and the generation of marine services businesses.

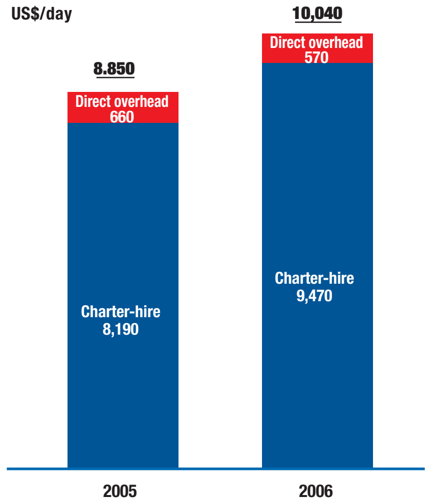
Vessel daily operating costs can be analysed between owned and chartered costs (all expressed in US$ per day) as follows:

Handysize

Owned

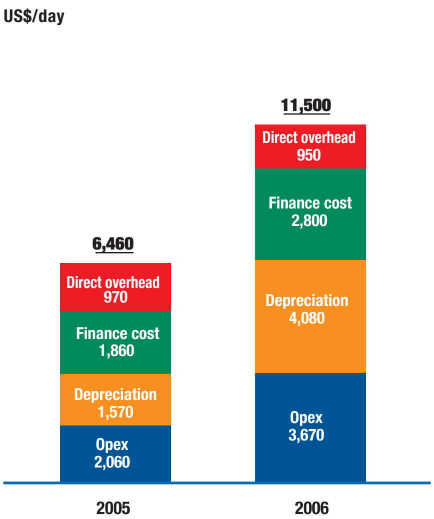


Chartered

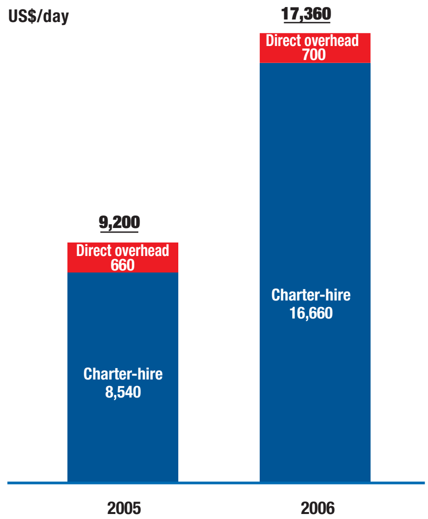


Handymax

Owned



Chartered

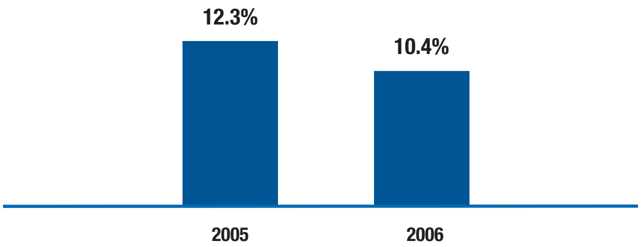


Revenue days and vessel days can be analysed as follows:

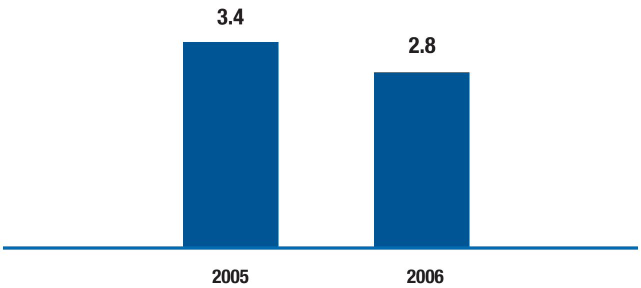
	2005	2006		**2006**
	Total	Owned	Chartered	**Total**
Handysize				
Vessel days	14,630	12,390	4,220	**16,610**
Drydocking	(200)	(180)	–	**(180)**
Off-hire	(170)	(10)	–	**(10)**
Revenue days	14,260	12,200	4,220	**16,420**
Handymax				
Vessel days	720	390	4,660	**5,050**
Drydocking	–	–	–	**–**
Off-hire	–	–	–	**–**
Revenue days	720	390	4,660	**5,050**

The off-hire for the total fleet of owned vessels represented 0.3 (2005: 5.4) days per vessel per year.

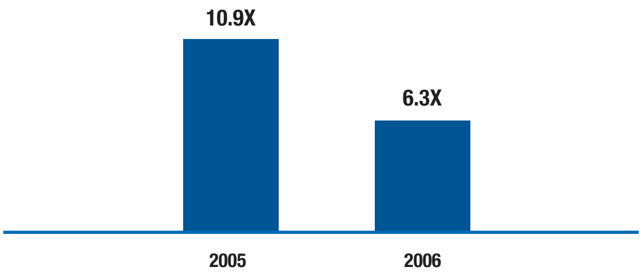
Administrative Expenses as a Percentage of Time Charter Equivalent Earnings



Number of Full Time Shore Based Staff per Vessel



Interest Coverage



Other Operating Income

Movements in the fair value of receipts from forward freight agreements amounted to US$10.6 million (2005: Nil). In addition, finance lease and bank interest income amounted to US$3.1 million (2005: US$0.7 million).

Other Operating Expenses

Movements in the fair value of payments for forward freight agreements amounted to US$18.9 million (2005: US$0.2 million). Taking into account the movement in fair value of receipts of US$10.6 million as shown above, the net movements in the fair value of forward freight agreements was a charge of US$8.3 million (2005: US$0.2 million).

General and Administrative Expenses

The Group's total administrative expenses of US$35.8 million (2005: US$32.5 million) consisted of shore based overhead costs of US$23.5 million (2005: US$20.7 million) included as part of direct expenses, and general and administrative expenses of US$12.3 million (2005: US$11.8 million). The increase was largely due to the increase in the number of staff directly involved in the management of the expanded fleet. General and administrative expenses included Directors, senior management, key staff and administrative staff costs of US$8.4 million (2005: US$8.0 million) and other administrative and office expenses of US$3.9 million (2005: US$3.8 million).

Total administrative expenses as a percentage of time charter equivalent earnings decreased from 12.3% to 10.4%, reflecting greater productivity per staff. In addition, the number of full time shore based staff per owned, chartered and managed vessel decreased from 3.4 to 2.8. This excludes the staff who are engaged in the provision of surveying and consulting services and not in the management of these vessels.

Share of Profits less Losses of Jointly Controlled Entities

The Group's share of profits less losses of jointly controlled entities of US$3.0 million mainly represented the share of results of a jointly controlled vessel, the "Captain Corelli", and a jointly controlled business involved in the shipping of aggregates in the Middle East.

Financing

Finance costs of US$26.8 million (2005: US$17.9 million) included interest payments of US$3.8 million (2005: US$11.5 million) in relation to bank borrowings used to finance the Group's owned vessels and finance charges of US$21.2 million (2005: US$4.2 million) in relation to vessels under finance lease arrangements.

Interest payments on bank borrowings

The decrease in interest payments on bank borrowings in 2006 of US$7.7 million was due to the decrease in the average bank borrowings outstanding to US$62.2 million in 2006 (2005: US$266.1 million). The bank borrowings' interest cost amounted to approximately US$600 per day for the owned vessels in 2006 (2005: US$1,100 per day). Average interest rates before hedging on bank borrowings were approximately 6.0% in 2006 (2005: 4.3%).

Finance charges

Finance charges of US$21.2 million (2005: US$4.2 million) represented interest payments on finance lease liabilities used to finance the Group's finance leased vessels. During the second half of 2005, the Group sold and bareboat leased back 17 of its vessels for periods of 10 to 12 years. Finance lease accounting has been adopted for these transactions so the balance sheet shows the net carrying value of these vessels, and the current and long term liabilities in aggregate include finance lease liabilities of US$302.0 million. The fixed equal quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities in the balance sheet and finance charges in the income statement. The finance charges for the 6,200 finance lease vessel days amounted to approximately US$3,410 per day in 2006 (2005: US$3,620). This daily charge will reduce each year as the finance lease liabilities in the balance sheet are repaid. Finance charges can be expressed as interest rates, fixed for the period of the leases. The average interest rate on finance leases was approximately 6.7% in 2006 (2005: 6.7%).

Tax

Taxation amounted to US$1.1 million in 2006 (2005: US$0.8 million). Certain shipping income is not subject to taxation according to the tax regulation prevailing in the countries in which the Group operates.

Gains on Disposal of Property, Plant and Equipment

Gains on disposal of property, plant and equipment of US$23.8 million were recognised in 2006 (2005: US$23.5 million). The Group sold and leased back two of its vessels. Proceeds from the sale of US$39.9 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 payments being recognised as expenses.

Cashflow

US$ million	2005	**2006**
Net cash from operating activities	173.3	**148.2**
– Purchase of property, plant and equipment and land use rights	(121.2)	**(286.6)**
– Sale of property, plant and equipment	139.5	**39.9**
– Others	6.4	**5.6**
Net cash from/(used in) investing activities	24.7	**(241.1)**
– Proceeds from new share placement, net of share issuing expenses	–	**154.3**
– Net (repayment)/drawdown of borrowings	(372.9)	**33.6**
– Sale proceeds under finance leases	318.0	**–**
– Payment of interest and other finance charges	(17.0)	**(25.4)**
– Payment of dividends	(88.5)	**(91.6)**
– Others	2.9	**3.1**
Net cash (used in)/from financing activities	(157.5)	**74.0**
Cash at 31 December	82.1	**63.2**

At 31 December 2006, the Group had net working capital of US$43.1 million excluding finance lease liabilities and bank loans repayable within one year of US$16.1 million and US$7.8 million respectively. The primary sources of liquidity comprised bank balances and cash of US$63.2 million and unutilised committed and secured bank borrowing facilities of US$118.9 million. The Group's primary liquidity needs are to fund general working capital requirements (including lease and other short term financing commitments), fleet expansion and other capital expenditure.

Financial Instruments

The Group is exposed to fluctuations in interest rates, bunker prices, freight rates and foreign currencies in relation to contracts designated in foreign currencies. The Group manages these exposures by way of interest rate swap contracts, bunker swap and forward contracts, forward freight agreements, and forward foreign exchange contracts respectively. Further details are included in Note 11 and Note 21 to the audited financial statements in this Annual Report.

At 31 December 2006, the forward foreign exchange contracts and one of the interest rate swap contracts qualified as cashflow hedges. Accordingly, the change in the fair value of these instruments during the year then ended was recognised directly in hedging reserve.

Hedge accounting has neither been adopted for bunker swap and forward contracts nor for forward freight agreements. This is mainly because the contract periods, which are in calendar months, do not exactly coincide with the period of the physical contracts. Hedge accounting has also not been adopted for one of the other interest rate swap contracts as its terms do not qualify for hedge accounting. Gains or losses arising from a change in the fair value of these contracts were recognised in the income statement under i) finance costs for interest rate swap contracts; ii) bunkers, port disbursements and other charges for bunker swap and forward contracts; and iii) other operating income and other operating expenses for forward freight agreements. The adoption of HKAS 39 "Financial Instruments: Recognition and Measurement" has the effect of shifting the estimated results of these future contracts into the current period as part of the 2006 unrealised, non-cash charge of US$11.1 million whereas the cashflows of these contracts will occur in future reporting periods.

In 2006, the Group recognised net realised losses of US$2.6 million and net unrealised losses of US$11.1 million in respect of financial instruments in the income statement. This resulted in a total charge for the year of US$13.7 million. Included in this amount was a net loss of US$8.3 million in relation to forward freight agreements of which US$4.7 million was realised and US$3.6 million unrealised. These are further analysed as follows:

US$ million	2005	Realised	Unrealised	**2006**
Gains				
– Interest rate swap contracts	1.0	0.2	–	**0.2**
– Bunker swap and forward contracts	7.6	4.0	0.2	**4.2**
– Forward freight agreements	–	6.3	4.3	**10.6**
	8.6	10.5	4.5	**15.0**
Losses				
– Interest rate swap contracts	(1.0)	(0.1)	(1.4)	**(1.5)**
– Bunker swap and forward contracts	(0.4)	(2.0)	(6.3)	**(8.3)**
– Forward freight agreements	(0.2)	(11.0)	(7.9)	**(18.9)**
	(1.6)	(13.1)	(15.6)	**(28.7)**
Net				
– Interest rate swap contracts	–	0.1	(1.4)	**(1.3)**
– Bunker swap and forward contracts	7.2	2.0	(6.1)	**(4.1)**
– Forward freight agreements	(0.2)	(4.7)	(3.6)	**(8.3)**
	7.0	(2.6)	(11.1)	**(13.7)**

Indebtedness

The indebtedness of the Group comprised finance lease liabilities of US$302.0 million and bank borrowings of US$48.5 million, of which US$16.1 million and US$7.8 million respectively represented the current portion that were repayable within one year from the balance sheet date.

Finance lease liabilities decreased to US$302.0 million (2005: US$316.9 million) as a result of repayments during the year. Bank borrowings increased to US$48.5 million (2005: Nil). The increase was the result of re-drawn existing pre-paid bank facilities to finance the delivery and acquisition of vessels.

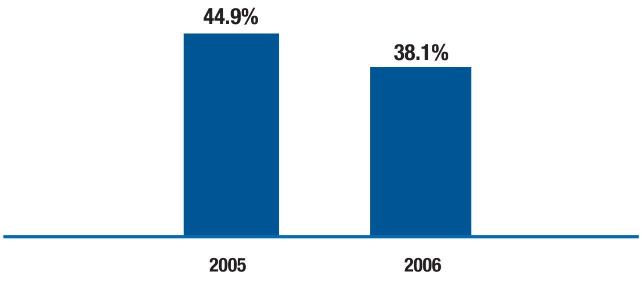
At 31 December 2006, all outstanding finance lease liabilities will expire between 2015 and 2017 and all outstanding secured bank borrowings will expire in 2014.

The Group's bank borrowings were secured by mortgages over 6 vessels with a total net book value of US$131.7 million and assignment of earnings and insurances in respect of the vessels.

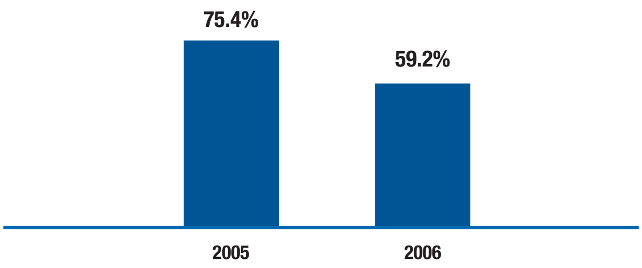
The Group had unutilised committed bank borrowing facilities of US$118.9 million available to finance the Group's newbuilding commitments and other vessel acquisitions.

The Group's gearing ratio expressed as borrowings and finance lease liabilities, net of cash, as a percentage of property, plant and equipment (based on net book values) and vessel finance lease receivables was 38.1% (2005: 44.9%).

Net Borrowings to Book Value of Property, Plant and Equipment



Net Borrowings to Shareholders' Equity



Lease Commitments

Lease commitments include vessels chartered by the Group directly and by the IHC and IHX Pools. Charter in commitments under operating leases stood at US$285.1 million (31 December 2005: US$223.1 million). These commitments excluded vessels under finance leases which were included as part of property, plant and equipment. The increase was mainly due to higher average daily rates of the vessels under operating leases and an average increase of three chartered vessels during the year. Of these commitments, US$206.2 million related to handysize vessels and US$78.9 million related to handymax vessels, as follows:

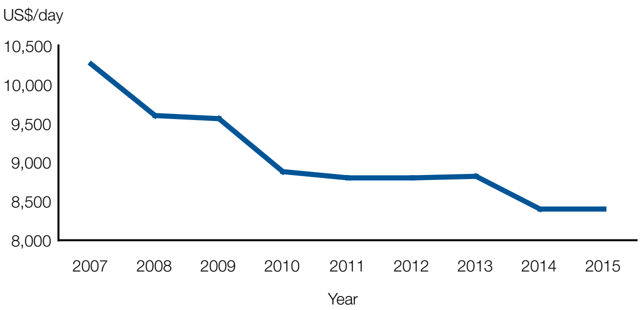
Lease Commitments (US$ million)	2007	2008 to 2011	After 2011	Total
PB Handysize	52.5	126.5	23.7	202.7
IHC Pool	3.5	–	–	3.5
Handysize subtotal	56.0	126.5	23.7	206.2
PB Handymax	19.9	14.2	–	34.1
IHX Pool	43.0	1.8	–	44.8
Handymax subtotal	62.9	16.0	–	78.9
Total	118.9	142.5	23.7	285.1

Lease Commitments (days)	2007	2008 to 2011	After 2011	Total
PB Handysize	5,290	13,540	2,730	21,560
IHC Pool	170	–	–	170
Handysize subtotal	5,460	13,540	2,730	21,730
PB Handymax	1,450	1,510	–	2,960
IHX Pool	1,620	80	–	1,700
Handymax subtotal	3,070	1,590	–	4,660
Total	8,530	15,130	2,730	26,390

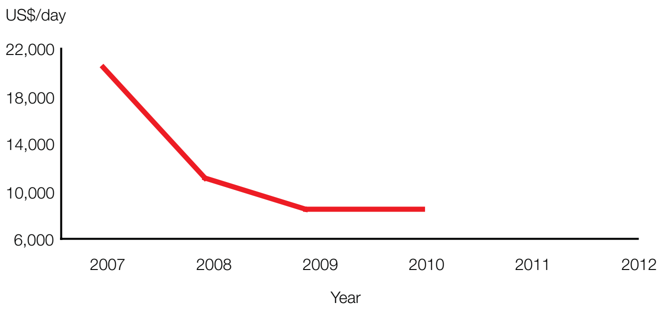
Note: “PB Handysize” and “PB Handymax” represent those vessels directly chartered by the Group while “IHC Pool” and “IHX Pool” represent those vessels directly chartered by the Pools.

Average PB vessels and Pool vessels daily charter rates can be analysed as follows:

Handysize



Handymax



The average daily charter rates and total number of vessel days of our PB handysize and PB handymax vessels under operating leases and finance leases in each year, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements, are as follows:

Certain lease agreements provide the Group with the option to purchase the related vessel at a pre-determined time and exercise price during the lease period. The average exercise prices of the existing purchase options for both handysize vessels and handymax vessels in the earliest years in which these options may be exercised, along with the number of vessels and the average age of such vessels in that year, are as follows:

	PB Handysize Operating leases		PB Handysize Finance leases		PB Handymax Operating leases	
Year	**Average daily rate (US$)**	**Total number of vessel days**	**Average daily rate (US$)**	**Total number of vessel days**	**Average daily rate (US$)**	**Total number of vessel days**
2007	9,900	5,290	5,800	6,210	13,700	1,450
2008	9,600	5,120	5,800	6,220	10,100	880
2009	9,600	3,920	5,800	6,210	8,500	620
2010	8,900	2,680	5,800	6,210	8,500	10
2011	8,800	1,830	5,800	6,210	–	–
2012	8,800	1,340	5,800	6,220	–	–
2013	8,800	730	5,800	6,210	–	–
2014	8,400	370	5,800	6,210	–	–
2015	8,400	280	5,800	5,410	–	–
2016	–	–	5,900	1,830	–	–
2017	–	–	6,000	1,520	–	–
Total		21,560		58,460		2,960

		Number of vessels			
Earliest year in which options may be exercised	**Vessel type**	**Finance lease**	**Operating lease**	**Average age of such vessels**	**Average option exercise price (US$ million)**
2007	Handysize	17	2	5	18.0
2008	Handysize	–	4	6	21.1
2009	Handysize	–	3	3	22.1
	Handymax	–	1	5	17.7
2010	Handysize	–	1	3	22.5
	Handymax	–	1	5	17.7
Total		17	12		

Capital Expenditure, Property, Plant and Equipment and Commitments

In 2006, capital expenditure, mainly comprised eight handysize, two handymax vessel acquisitions and instalments on 10 newbuildings, amounted to US$286.6 million. This included capitalised expenditure on drydocking of US$4.2 million. Cash used for the purchase of vessels and proceeds from the sale of vessels can be illustrated in the graph "Proceeds from Sale of Vessels and Gross Investments" below.

At 31 December 2006, the Group had property, plant and equipment of US$741.0 million, of which US$683.5 million related to 39 delivered vessels with an average net book value of US$17.5 million per vessel and an average age of 6 years.

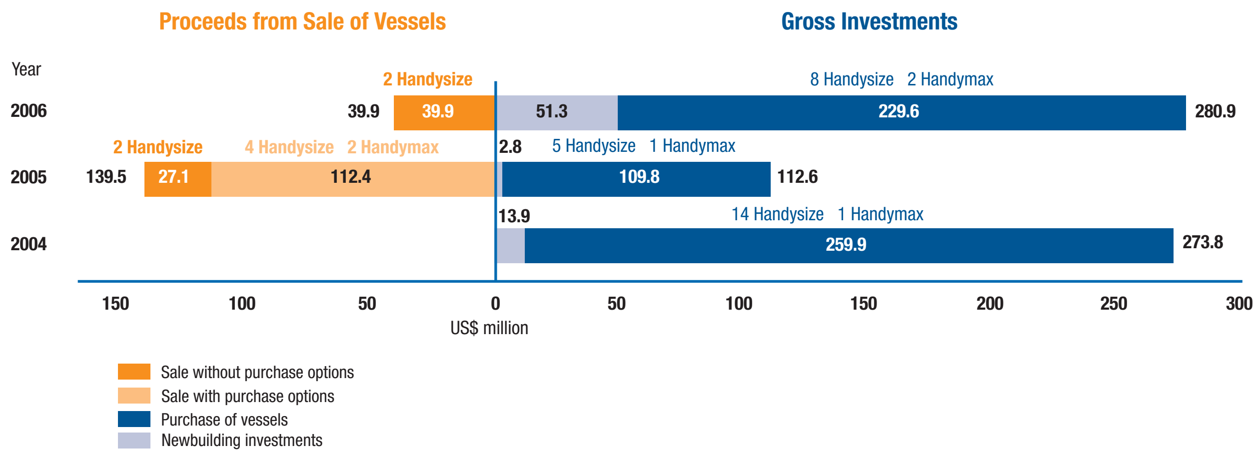
The Group had non-cancellable commitments of US$216.8 million for the construction of 11 handysize vessels. In addition, the Group, at the year end, was authorised to purchase and subsequently contracted for one handymax vessel with a value of US$34.9 million. These vessels are for delivery to the Group between February 2007 and September 2009.

Finance for such vessel commitments will come from cash generated from the Group's operations, existing cash and unutilised bank borrowing facilities and additional long term borrowings to be arranged, as required. Where the commitments are in currencies other than US Dollars, the Group has entered into contracts to purchase the currencies at predetermined rates.

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.

Proceeds from Sale of Vessels and Gross Investments



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

Capital Commitments (US$ million)	2007	2008	2009	Total
Contracted:				
11 Handysize newbuilding vessels	124.7	69.0	23.1	216.8
Authorised:				
1 Handymax newbuilding vessel	3.3	31.6	–	34.9
	128.0	100.6	23.1	251.7

Staff

At 31 December 2006, the Group employed a total of 260 full time shore based staff in offices in Hong Kong, Shanghai, Beijing, Dalian, Tokyo, Seoul, Singapore, Mumbai, Karachi, Dubai, Fujairah, London, Bad Essen, Houston, Vancouver and Melbourne. The largest office is in Hong Kong with 150 employees.

The Group incurred total staff costs of approximately US$25.5 million in 2006 (2005: US$23.4 million), representing 4.1% of the Group's turnover for the year (2005: 5.4%).

Remuneration of the Group's employees includes fixed basic salaries, discretionary bonuses (based on both the Group's and individual's performance for the year), and long term incentives.

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' mandatory contributions subject to a cap of 5% of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred. When employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The Company's Long Term Incentive Scheme allows the Company to award eligible participants with share options and restricted share awards.

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