Notes to the financial statements

1 General information

Pacific Basin Shipping Limited (the "Company") and its subsidiaries (collectively the "Group") are principally engaged in the provision of dry bulk shipping services, which are carried out internationally, through the operation of a fleet of vessels.

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

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

These financial statements have been approved for issue by the Board of Directors on 5 March 2007.

The functional currency of all major entities is United States Dollars and the Group applies United States Dollars as presentation currency in the preparation of these financial statements.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with HKFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these financial statements, are disclosed in Note 4.

In 2006, the Group adopted the new/revised standards and interpretations to the published standards below, which are relevant to its operations.

HKAS 21 Amendment	Net Investment in a Foreign Operation
HKAS 39 Amendment	The Fair Value Option
HKAS 39 and HKFRS 4 Amendment	Financial Instruments: Recognition and Measurement and Insurance Contracts – Financial Guarantee Contracts
HK(IFRIC) – Int 4	Determining whether an Arrangement contains a Lease

The adoption of these new/revised standards and intepretations did not result in any substantial change to the Group's accounting policies.

Certain new standards, amendments and interpretations to the published standards are mandatory for accounting period beginning on or after 1 May 2006 or later periods. The Group was not required to adopt these new standards, amendments and interpretations in the financial statements for the year ended 31 December 2006.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.1 Basis of preparation (continued)

New standards, amendments and interpretations effective for the year ending 31 December 2007 are as follow:

HKAS 1 Amendment	Capital Disclosures
HKFRS 7	Financial Instruments: Disclosures
HK(IFRIC) – Int 8	Scope of HKFRS 2
HK(IFRIC) – Int 9	Reassessment of Embedded Derivatives
HK(IFRIC) – Int 10	Interim Reporting and Impairment
HK(IFRIC) – Int 11	HKFRS 2 – Group and Treasury Share Transactions

The Group has already commenced an assessment of the impact of these new standards, amendments and interpretations but is not yet in a position to state whether they would have a significant impact on its results of operations and financial position.

2.2 Consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries made up to 31 December.

(i) Subsidiaries

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognised directly in the income statement.

Intercompany transactions, balances and unrealised gains on transactions between group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

In the Company's balance sheet, the investments in subsidiaries are stated at cost less provision for impairment losses. The results of subsidiaries are accounted for by the Company on the basis of dividend income.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.2 Consolidation (continued)

(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.

Interests in jointly controlled entities are accounted for in the financial statements under the equity method and are stated at cost plus share of post-acquisition results and reserves and goodwill on acquisition less provision for impairment losses. The share of post-acquisition results and reserves is based on the relevant profit sharing ratios.

The Group recognises the portion of gains or losses on the sale of assets by the Group to the jointly controlled entity that it is attributable to the other venturers. The Group does not recognise its share of profits or losses from the jointly controlled entity that result from the purchase of assets by the Group from the jointly controlled entity until it resells the assets to an independent party. However, a loss on the transaction is recognised immediately if the loss provides evidence of a reduction in the net realisable value of current assets, or an impairment loss.

(b) Jointly controlled operations

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 a share being determined in accordance with the contractual arrangement.

The Group's interest in jointly controlled operation is accounted for by proportionate consolidation. The Group combines its share of the jointly controlled operation's individual income and expenses, assets and liabilities and cash flows on a line-by-line basis with similar items in the Group's financial statements.

2.3 Property, plant and equipment

(i) Vessels under construction

Vessels under construction are stated at cost and are not depreciated. All direct costs relating to the construction of vessels, including finance costs on related borrowed funds during the construction period, are capitalised as cost of vessels. When the assets concerned are brought into use, the costs are transferred to vessels and vessel component costs and depreciated in accordance with the policy as stated in (ii) below.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.3 Property, plant and equipment (continued)

(ii) Vessels and vessel component costs

Vessels are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an asset comprises its purchase price and any directly attributable cost of bringing the asset to its working condition for its intended use. Cost may also include transfers from equity of any gains/losses on qualifying cash flow hedges of foreign currency purchases of vessels.

Subsequent costs are included in the vessel's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. All other repairs and maintenance are expensed in the income statement during the financial period in which they are incurred.

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

Vessel component costs include the cost of major components which are usually replaced or renewed in connection with a drydocking when a vessel is delivered. The assets are stated at cost less accumulated depreciation and accumulated impairment losses. The vessel component costs are depreciated over the estimated period to the first drydocking. The Group subsequently capitalises drydocking costs as they are incurred and depreciates these costs over their estimated useful lives.

(iii) Other property, plant and equipment

Other property, plant and equipment, comprising buildings, leasehold improvements, furniture, fixtures and equipment and motor vehicles, are stated at cost less accumulated depreciation and accumulated impairment losses. 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:

Buildings	50 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
Motor vehicles	4 years

Major costs incurred in restoring property, plant and equipment to their normal working condition are charged to the income statement. Improvements are capitalised and depreciated over their expected useful lives to the Group.

(iv) Residual values and useful lives

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each balance sheet date.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.3 Property, plant and equipment (continued)

(v) Gain or loss on disposal

Gains or losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised in the income statement.

2.4 Goodwill

Goodwill represents the excess of the cost of acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition.

Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are not reversed. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity being sold.

For the purpose of impairment testing, goodwill is allocated to cash-generating units that are expected to benefit from the business combination in which the goodwill arose.

2.5 Impairment of assets

Assets that have an indefinite useful life or are not yet available for use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each balance sheet date.

2.6 Leases

(i) Operating leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases.

(a) Where the Group is the lessor

When the Group leases out assets under operating leases, the assets are included in the balance sheet and, where applicable, are depreciated in accordance with the Group's depreciation policies as set out in Note 2.3 above. Revenue arising from assets leased out under operating leases is recognised on a straight-line basis over the lease periods.

(b) Where the Group is the lessee

Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the lease periods.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.6 Leases (continued)

(ii) Finance leases

Leases of assets where the lessee has substantially all the risks and rewards of ownership are classified as finance leases.

(a) Where the Group is the lessor

When assets are leased out under finance leases, the present value of the lease payments is recognised as a receivable. The difference between the gross receivables and the present value of the receivables is recognised as unearned finance lease interest income. Lease income is recognised over the term of the lease using the net investment method, which reflects a constant periodic rate of return.

(b) Where the Group is the lessee

Finance leases are capitalised at the commencement of the lease at the lower of the fair value of the leased asset and the present value of the minimum lease payments. Each lease payment is allocated between liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The corresponding rental obligations, net of finance charges, are included in current and non-current borrowings. The finance charge element of the rental obligations is expensed in the income statement over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The assets accounted for as finance leases are depreciated over the shorter of their estimated useful lives and the lease periods.

(iii) Sale and leaseback transactions – where the Group is the lessee

A sale and leaseback transaction involves the sale of an asset by the Group and the leasing of the same asset back to the Group. The lease payments and the sale price are usually interdependent as they are negotiated as a package. The accounting treatment of a sale and leaseback transaction depends upon the type of lease involved and the economic and commercial substance of the whole arrangement.

(a) Finance leases

Sale and leaseback arrangements that result in the Group retaining the majority of the risks and rewards of ownership of assets are accounted for as finance leases. Any excess of sales proceeds over the carrying amount is deferred and amortised over the lease term. Please refer to (ii)(b) above for the accounting treatment.

(b) Operating leases

Sale and leaseback arrangements that result in substantially all of the risks and rewards of ownership of assets being transferred to the lessor are accounted for as operating leases. Any excess of sale proceeds over the carrying amount is recognised in the income statement as gain on disposal. Please refer to (i)(b) above for the accounting treatment.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.7 Financial assets

The Group classifies its financial assets in the following three categories:

(i) Financial assets at fair value through profit or loss;

(ii) Loans and receivables; and

(iii) Available-for-sale financial assets.

The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition and re-evaluates their classification at every balance sheet date.

(i) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are classified as held for trading unless they are designated as hedges. If an asset is either held for trading or is expected to be realised within twelve months of the balance sheet, it is classified as a current asset.

Assets in this category are initially recognised at fair value, and transaction costs are expensed in the income statement, and are subsequently remeasured at their fair values. Gains and losses arising from changes in the fair values are included in the income statement in the period in which they arise, except where the derivatives qualify for cashflow hedge accounting, in which case recognition of any resultant gain or loss depends on the nature of the item being hedged.

(ii) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than twelve months after the balance sheet date. These are classified as non-current assets. Loans and receivables are classified as trade and other receivables in the balance sheet.

Loans and receivables are recognised initially at fair value, net of transaction costs incurred. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

(iii) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any other categories. They are included in non-current assets unless management intends to dispose of them within twelve months from the balance sheet date. Assets in this category are initially recognised at fair value plus transaction costs and are subsequently carried at fair value. Gains and losses arising from changes in the fair value are recognised in equity.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.7 Financial assets (continued)

Purchases and sales of financial assets are recognised on the date of trade, when the Group commits to purchase or sell the assets. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership.

The fair values of quoted investments and derivative financial instruments are based on current bid prices. If the market for a financial asset is not active, the Group establishes fair value by using appropriate valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, and discounted cash flow analysis.

The Group assesses at each balance sheet date whether there is objective evidence that a financial asset or a group of financial assets is impaired. In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered as an indicator that the securities are impaired. If any such evidence exists for available-for-sale financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in the income statement – is removed from equity and recognised in the income statement. Impairment losses recognised in the income statement on equity instruments are not reversed through the income statement.

2.8 Derivative financial instruments and hedging activities

Derivative financial instruments are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured at their fair value. The method of recognising the resulting gain or loss depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as cash flow hedges.

The Group documents at the inception of the transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in cash flows of hedged items.

The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than twelve months after the balance sheet date. Trading derivatives are classified as a current asset or liability.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.8 Derivative financial instruments and hedging activities (continued)

(a) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the income statement within other operating income and expenses.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset or a liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset or liability.

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in the income statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the income statement.

(b) Derivatives that do not qualify for hedge accounting

Derivative instruments that do not qualify for hedge accounting are accounted for at fair value through profit or loss. Changes in the fair value of these derivative instruments that do not qualify for hedge accounting are recognised immediately in the income statement.

2.9 Inventories

Inventories mainly comprise bunkers on board vessels and lubricating oil. Inventories are stated at the lower of cost and net realisable value. Costs are calculated on a first-in first-out basis. Net realisable value is determined on the basis of anticipated sales proceeds less estimated selling expenses.

2.10 Trade and other receivables

Trade receivables represent freight and charter-hire receivables which are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect the amount due according to the original terms of that receivable. The amount of the provision is recognised in the income statement. Subsequent recoveries of amounts previously written off are credited in the income statement.

2.11 Cash and cash equivalents

For the purposes of the consolidated cash flow statement, cash and cash equivalents comprise cash on hand and deposits held with banks.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.12 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 there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

2.13 Share capital

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Where any group company purchases the Company's equity share capital, the consideration paid, including any directly attributable incremental costs (net of income taxes), is deducted from equity until the shares are cancelled, reissued or disposed of. Where such shares are subsequently sold or reissued, any consideration received (net of any directly attributable incremental transaction costs and the related income tax effects) is included in equity.

2.14 Borrowings

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently stated at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least twelve months after the balance sheet date.

2.15 Trade payables

Trade payables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method.

2.16 Land use rights

The upfront prepayments made for land use rights are expensed in the income statement on a straight line basis over the period of the lease or when there is an impairment, it is expensed in the income statement.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.17 Deferred income tax

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

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

Deferred income tax is provided on temporary differences arising on investments in subsidiaries and jointly controlled entities, except where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

2.18 Insurance contracts

The Group assesses at each balance sheet date the liabilities under its insurance contracts using current estimates of future cash flows. Changes in carrying amount of these insurance liabilities are recognised in the income statement.

2.19 Revenue recognition

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group’s activities. Revenue is shown net of value-added tax, returns, rebates and discounts and after eliminating sales with the Group.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group’s activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specific circumstance in respect of each arrangement.

(i) Ship chartering

The Group generates revenue from shipping activities, the principal sources of which are derived from the International Handybulk Carriers (“IHC”) Pool and International Handymax Carriers (”IHX”) Pool which are regarded as special purpose entities of the Group.

Revenues from the IHC Pool and IHX Pool are derived from a combination of voyage charters, time charters and contracts of affreightment and are recognised on an accruals basis.

(ii) Ship management

Ship management income is recognised when the services are rendered.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.19 Revenue recognition (continued)

(iii) Others

Interest income is recognised on a time-proportion basis using the effective interest method.

Finance lease interest income is recognised over the term of the lease using the net investment method, based on a constant periodic rate of return.

Dividend income is recognised when the right to receive payment is established.

2.20 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that are subject to risks and returns that are different from those of segments operating in other economic environments.

2.21 Employee benefits

(i) Bonuses

The Group recognises a liability and expense for bonuses when there is a contractual obligation or where there is a past practice that created a constructive obligation.

(ii) Retirement benefit obligations

Mandatory Provident Fund Scheme

The Group operates the Mandatory Provident Fund Scheme (the "MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme, the assets of which are held in separate trustee-administered funds.

Under the MPF Scheme, the employer and its employees are each required to make contributions to the scheme at 5% 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 vests immediately upon the completion of service in the relevant service period, while the remaining portion vests 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 financial statements

2 Summary of significant accounting policies (continued)

2.21 Employee benefits (continued)

(ii) 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 local statutory requirements.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred and are reduced by contributions forfeited by those employees who leave the schemes prior to contributions fully vesting.

(iii) Share-based compensation

The fair value of the employee services received in exchange for the grant of the share options and restricted share awards is recognised as an expense in the income statement.

The total amount to be expensed over the vesting period is determined with reference to the fair value of the share options and restricted share awards granted. At each balance sheet date, the Company revises its estimates of the number of share options that are expected to become exercisable and the number of restricted share awards that become vested. It recognises the impact of the revision of original estimates, if any, in the income statement, and a corresponding adjustment to equity in the balance sheet will be made over the remaining vesting periods.

The proceeds received, net of any directly attributable transaction costs, are credited to share capital and share premium when the share options are exercised and when the restricted share awards are vested.

2.22 Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in United States Dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing 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 income statement, except when deferred in equity as qualifying cash flow hedges.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.22 Foreign currency translation (continued)

(iii) Group companies

The results and financial position of all the Group entities that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(a) assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet;

(b) income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(c) all resulting exchange differences are recognised as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign operations, and of borrowings and other currency instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is partially disposed of or sold, exchange differences that were recorded in equity are recognised in the income statement as part of the gain or loss on sale.

2.23 Borrowing costs

Borrowing costs incurred for the construction of any qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended us. Other borrowing costs are expensed.

2.24 Dividends

Dividend distributions to the Company's shareholders are recognised as liabilities in the Group's financial statements in the period in which the dividends are declared.

The dividend declared after the year is not reflected as a dividend payable in the financial statements, but will be reflected as an appropriation of retained profits for the following year.

Notes to the financial statements

2 Summary of significant accounting policies (continued)

2.25 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 the obligation cannot be measured reliably.

Contingent liabilities are not recognised but are disclosed in the notes to the financial statements. When a change in the probability of an outflow occurs so that an outflow is probable, it 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 future events not wholly within the control of the Group.

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

3 Financial risk management

3.1 Financial risk factors

The Group's financial risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance. The Group uses derivative financial instruments to hedge certain risk exposures.

Under the Group's risk management programme, each department identifies and documents their key tasks and the risks associated with their tasks. The risks are summarised in a risk register where they are graded by likelihood and consequence and where the procedures and controls for managing the risks are recorded.

(i) Market risk

(a) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to United States Dollars. Foreign exchange risk arises from future commercial transactions, assets and liabilities and net investments, denominated in foreign currencies. To mitigate risks arising from fluctuations in exchange rates, forward foreign exchange contracts are used to hedge the currency exposure of the Group in connection with purchases of vessels.

(b) Price risk

The Group's results may be significantly affected by the fluctuation of bunker prices as it is a significant cost to the Group. The bunker prices are determined by the market demand and supply. To mitigate risks arising from fluctuations in bunker prices, bunker swap and forward contracts are used to manage the exposure of the Group.

Notes to the financial statements

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(ii) Credit risk

The Group has no significant concentrations of credit risk. It has policies in place to ensure that sales of services are provided to customers with an appropriate credit history. No credit terms are normally given to customers. In relation to voyage-related trade receivables, the due date depends on the date of completion of the voyage and the finalisation of post disbursements and other voyage-related charges.

(iii) Liquidity risk

The Group manages its liquidity risk by ensuring it has sufficient liquid cash balances to meet its payment obligations as they fall due. The Group maintains good working relations with its ship finance banks and ensures compliance with the covenants as stipulated in the loans and finance lease agreements.

(iv) Cash flow and fair value interest rate risk

Long term borrowings at variable interest rates expose the Group to cash flow interest rate risk and those at fixed rates expose the Group to fair value interest rate risk.

The Group manages its cash flow interest rate risk by using certain interest rate hedging instruments from time to time.

3.2 Fair value estimation

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

(i) Derivatives assets and liabilities held by the Group are mainly over-the-counter derivatives which are not traded in an active market. The fair values of forward freight agreements and forward foreign exchange contracts are determined using freight rates and forward exchange market rates at the balance sheet date respectively. The fair values of interest rate swap contracts and bunker swap and forward contracts are quoted by dealers as at the balance sheet date.

(ii) The fair value of long term borrowings is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the Group for similar financial instruments.

(iii) The carrying values of bank balances, trade and other receivables, amounts due from subsidiaries, loans to jointly controlled entities and trade and other payables are assumed to approximate their fair values due to the short term maturities of these assets and liabilities.

Notes to the financial statements

4 Critical accounting estimates and judgements

Estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next year are:

(i) Goodwill impairment

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.4. The recoverable amounts of cash-generating units have been determined based on value-in-use calculation over their useful lives. Note 8 contains information about the assumptions relating to the value-in-use calculation.

(ii) Residual values of property, plant and equipment

The residual values of the Group's assets are defined as the estimated amounts that the Group would currently obtain from disposal of the assets, after deducting the estimated costs of disposal, as if the assets were already of the age and in the condition expected at the end of their useful lives.

The Group estimates residual values of its vessels by reference to the lightweight tonnes of the vessels provided by the shipyards and the average demolition steel price of similar vessels, of the Far East market and Indian Sub-Continent market, over the preceding year.

(iii) Useful lives of vessels and vessel component costs

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

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

The Group estimates the useful life of its vessel component costs by reference to the average historical periods between drydocking cycles of vessels of similar age, and the expected usage of the vessel until its next drydocking.

Notes to the financial statements

4 Critical accounting estimates and judgements (continued)

(iv) Classification of leases

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

Taking into account the market conditions at the inception of the lease, the period of the lease, the flexibility of exercising purchase options, if any, attached to the lease and on a balance of probability, management's assessment is that for those leases that they have ultimately treated as finance leases, the arrangements are such that they transfer ownership of the assets to the Group under the terms of the arrangements, or the purchase options, if any, attached to the arrangements are sufficiently attractive as to make it reasonably certain that they would be exercised. On the contrary, for those leases that have been treated as operating leases, management's assessment is that the arrangements are such that the leases would not transfer ownership of the assets to the Group under the terms of the arrangements, or that it is not reasonably certain that the purchase options, if any, attached to the arrangements would be exercised.

5 Turnover and segment information

The Group is principally engaged in the provision of dry bulk shipping services through the operation of a fleet of vessels. Turnover recognised during the year is as follows:

	2006 US$'000	2005 US$'000
Turnover		
Freight and charter-hire	**609,802**	422,638
Ship management income	**10,642**	11,066
	620,444	433,704
Bunkers, port disbursements and other charges	**(257,378)**	(131,492)
Amounts payable to other pool members (Note)	**(18,290)**	(37,529)
Time charter equivalent earnings	**344,776**	264,683

Note: Amounts payable to other pool members relate to freight and charter-hire, net of bunkers, port disbursements and other charges of US$14.4 million (2005: US$19.6 million) and were calculated based on the number of pool points attributable to the vessels participating in the pool owned by the other pool members.

Notes to the financial statements

5 Turnover and segment information (continued)

Primary reporting format – business segments

The Group's business is dominated by the provision of dry bulk shipping services, accordingly business segment information is not presented.

Secondary reporting format – geographical segments

The Directors consider that the nature of the provision of dry bulk shipping services, which are carried out internationally, and the way in which costs are allocated, preclude a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment information is not presented.

6 Property, plant and equipment

	Group						
	Vessels and vessel component costs US$'000	Vessels under construction US$'000	Buildings US$'000	Leasehold improve-ments US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost							
At 1 January 2006	550,662	3,883	–	1,621	1,394	58	557,618
Additions	233,809	51,329	489	58	468	57	286,210
Write off	(3,627)	–	–	–	(10)	–	(3,637)
Disposals	(22,363)	–	–	–	(19)	–	(22,382)
At 31 December 2006	758,481	55,212	489	1,679	1,833	115	817,809
Accumulated depreciation							
At 1 January 2006	52,607	–	–	357	333	12	53,309
Charge for the year	32,221	–	9	628	529	12	33,399
Write off	(3,627)	–	–	–	(10)	–	(3,637)
Disposals	(6,259)	–	–	–	(17)	–	(6,276)
At 31 December 2006	74,942	–	9	985	835	24	76,795
Net book value							
At 31 December 2006	683,539	55,212	480	694	998	91	741,014

Notes to the financial statements

6 Property, plant and equipment (continued)

	Group					
	Vessels and vessel component costs US$'000	Vessels under construction US$'000	Leasehold improve-ments US$'000	Furniture, fixtures and equipment US$'000	Motor vehicles US$'000	Total US$'000
Cost						
At 1 January 2005	560,975	19,751	215	992	58	581,991
Additions	67,390	51,436	1,764	651	–	121,241
Write off	(2,903)	–	(346)	(92)	–	(3,341)
Disposals	(142,104)	–	(12)	(157)	–	(142,273)
Reclassification	67,304	(67,304)	–	–	–	–
At 31 December 2005	550,662	3,883	1,621	1,394	58	557,618
Accumulated depreciation						
At 1 January 2005	37,485	–	192	186	–	37,863
Charge for the year	28,701	–	516	335	12	29,564
Write off	(2,903)	–	(346)	(92)	–	(3,341)
Disposals	(10,676)	–	(5)	(96)	–	(10,777)
At 31 December 2005	52,607	–	357	333	12	53,309
Net book value						
At 31 December 2005	498,055	3,883	1,264	1,061	46	504,309

As at 31 December 2006, the aggregate cost and accumulated depreciation of the vessel component costs amounted to US$11,915,000 (2005: US$10,730,000) and US$5,459,000 (2005: US$4,416,000) respectively and were included in the vessels and vessel component costs.

As at 31 December 2006, the aggregate cost and accumulated depreciation of the vessels and vessel component costs held by the Group under finance leases amounted to US$310,810,000 (2005: US$310,083,000) and US$39,037,000 (2005: US$26,291,000) respectively.

As at 31 December 2006, certain owned vessels of net book value of US$131,726,000 (2005: Nil) were pledged to a bank as securities for bank loans granted to certain subsidiaries of the Group (Note 16(b)(i)).

Notes to the financial statements

7 Land use rights

The Group's interest in land use rights represents prepaid operating lease payments for land use rights in mainland China with a lease period between 10 to 50 years.

8 Goodwill

	Group	
	2006	2005
	US$'000	US$'000
Net book amount	**25,256**	25,256

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 2.4. The Group's business is dominated by ship chartering. As a result, the carrying amount of goodwill acquired through acquisitions is solely allocated to this cash-generating unit for impairment testing.

The recoverable amount of the cash-generating unit, to which the goodwill relates to, has been determined based on a value-in-use calculation over its useful life. The calculation is based on a three year profit forecast approved by the Board of Directors with key assumptions based on past performance and management's expectations on market development. Cash flows beyond the three year period are extrapolated assuming no material change in the existing business environment and market conditions. The discount rate applied to the cash flow projections is 8.6% and it reflects specific risks relating to the industry.

Based on the assessment performed, in the opinion of the Directors, no impairment provision against the carrying value of goodwill is considered necessary.

Notes to the financial statements

9 Subsidiaries

	Company	
	2006	2005
	US$'000	US$'000
Non-current		
Unlisted investments, at cost	**223,931**	223,931
Current		
Amounts due from subsidiaries	**262,634**	121,280
	486,565	345,211

The amounts due from subsidiaries are unsecured, interest free and have no fixed terms of repayment. The carrying amounts approximate their fair values.

Details of principal subsidiaries of the Group as at 31 December 2006 are set out in Note 32.

10 Interests in joint ventures

(a) Jointly controlled entities

	Group	
	2006	2005
	US$'000	US$'000
Share of net assets	**9,441**	7,138
Loans to jointly controlled entities	**5,858**	1,000
	15,299	8,138

The carrying amounts of the loans to jointly controlled entities approximate their fair values. The amounts are unsecured, non-interest bearing and have no fixed repayment terms except for a loan of US$4,066,000 (2005: Nil) which bears interest of LIBOR plus 2% per annum.

Notes to the financial statements

10 Interests in joint ventures (continued)

(a) Jointly controlled entities (continued)

An analysis of the Group's effective share of assets, liabilities, revenue and expenses of the jointly controlled entities is set out below:

	2006 US$'000	2005 US$'000
Assets		
Non-current assets	**17,086**	11,851
Current assets	**6,149**	5,734
	23,235	17,585
Liabilities		
Long term liabilities	**(11,658)**	(5,867)
Current liabilities	**(2,136)**	(4,580)
	(13,794)	(10,447)
Net assets	**9,441**	7,138
Revenue	**19,947**	28,257
Expenses	**(16,923)**	(24,766)
Share of profits less losses	**3,024**	3,491
Proportionate commitments in jointly controlled entities	**2,958**	–

There are no contingent liabilities relating to the Group's interests in jointly controlled entities, and no contingent liabilities of the ventures themselves.

Notes to the financial statements

10 Interests in joint ventures (continued)

(a) Jointly controlled entities (continued)

Details of the jointly controlled entities of the Group at 31 December 2006 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 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 中外船務有限公司	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
PY Accord Limited	The British Virgin Islands	1 share of US$1	50%/50%/50%	Vessel owning
PY Harmony Limited	The British Virgin Islands	1 share of US$1	50%/50%/50%	Vessel owning
Star Pacific Bulk Shipping Limited	The British Virgin Islands	100 shares of US$1 each	50%/50%/50%	Investment holding
Star Pacific Bulk Chartering (HK) Limited	Hong Kong/ International	1 share of HK$1	50%/50%/50%	Vessel chartering
Star Pacific Bulk Chartering (UK) Limited	England and Wales/ International	1 share of GBP1	50%/50%/50%	Vessel chartering
Tai Hua Ship Management (Shanghai) Limited 太華船舶管理(上海)有限公司	PRC	US$200,000 (registered capital)	50%/50%/50%	Provision of ship management services
Pacific Basin Projects Limited	The British Virgin Islands	100 shares of US$1 each	50%/50%/50%	Provision of material supply and marine transportation activities
Fujairah Bulk Shipping L.L.C.	United Arab Emirates	5,500 shares of AED1,000 each	33.5%/33.5%/33.5%	Aggregate trading and provision of material supply and marine transportation activities

All jointly controlled entities are held indirectly by the Company.

Notes to the financial statements

10 Interests in joint ventures (continued)

(b) Jointly controlled operations

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

	Group 2006 US$'000	Group 2005 US$'000
Charter-hire income included in time charter equivalent earnings	**3,672**	–
Charter-hire expenses included in direct costs	**(1,339)**	–
	2,333	–

The jointly controlled operations are arrangements with a third party to share equally the operating profits and losses associated with the bareboat charters of three vessels, for periods of not more than six months.

11 Derivative assets and liabilities

	Group 2006 US$'000	Group 2005 US$'000
Derivative assets		
Derivative assets that do not qualify for hedge accounting		
Interest-rate swap contracts	**–**	709
Bunker swap and forward contracts (Note a)	**1,492**	4,280
Total	**1,492**	4,989
Less: non-current portion of		
Bunker swap and forward contracts (Note a)	**(11)**	(3,382)
Current portion	**1,481**	1,607
Derivative liabilities		
Cash flow hedge		
Interest-rate swap contracts (Note (b)(i))	**780**	–
Forward foreign exchange contracts (Note c)	**3,553**	1,360
Derivative liabilities that do not qualify for hedge accounting		
Interest-rate swap contracts (Note (b)(ii))	**728**	–
Bunker swap and forward contracts (Note a)	**3,870**	–
Forward freight agreements (Note d)	**3,914**	180
Total	**12,845**	1,540
Less: non-current portion of		
Bunker swap and forward contracts (Note a)	**(654)**	–
Forward foreign exchange contracts (Note c)	**(982)**	(1,360)
	(1,636)	(1,360)
Current portion	**11,209**	180

Notes to the financial statements

11 Derivative assets and liabilities (continued)

(a) Bunker swap and forward contracts

At 31 December 2006, the Group had outstanding bunker swap and forward contracts to buy approximately 137,000 (2005: 82,900) metric tonnes of bunkers, and which expire through December 2009. The commitments were entered into to manage the fluctuations in bunker prices in connection with the Group's long term cargo contract commitments.

(b) Interest-rate swap contracts

At 31 December 2006, the Group had agreements with a bank to manage the six-month floating rate LIBOR ("Floating Rate") in connection with the Group's long term bank loans, detailed as follows:

(i) Effective from 2 January 2007, a notional amount of approximately US$20 million with the Floating Rate swapped to a fixed rate of approximately 5.6% per annum. This agreement expires in January 2017. This instrument qualifies for hedge accounting. The change in the fair value has been recognised directly in hedging reserve.

(ii) Effective from 2 January 2007, a notional amount of approximately US$40 million with the Floating Rate has been swapped to a fixed rate of approximately 5.0% per annum so long as the Floating Rate remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6 month fixing period when the prevailing Floating Rate is above 6.0% and reverts back to the fixed rate should subsequently the Floating Rate drop below 6.0%. This agreement expires in January 2017.

(c) Forward foreign exchange contracts

At 31 December 2006, the Group had outstanding forward foreign exchange contracts with banks to buy approximately JPY 9.1 billion and simultaneously to sell US$85.0 million for the acquisition of certain vessels denominated in Japanese Yen. These contracts expire through November 2008. The change in the fair value has been recognised directly in hedging reserve.

(d) Forward freight agreements

At 31 December 2006, the Group had outstanding forward freight agreements to buy approximately 545 (2005: 90) days of the Baltic Supramax Index at prices which range from US$16,000 to US$28,000 per day (2005: US$19,194 per day), and which expire through December 2007. The Group also had outstanding forward freight agreements to sell approximately 1,640 (2005: Nil) days of the Baltic Supramax Index at prices which range from US$11,950 to US$29,000 per day, and which expire through December 2007. The Group also had outstanding forward freight agreements to sell approximately 90 (2005: Nil) days of the Baltic Handysize Index at prices of US$20,000 per day, which expire through March 2007. The Group enters into forward freight agreements as a method of managing its exposure to both its physical tonnage and cargo with regard to handysize and handymax vessels.

Notes to the financial statements

12 Trade and other receivables

	Group 2006 US$'000	2005 US$'000
Non-current receivables		
Finance lease receivables – gross	**17,243**	20,063
Less: unearned finance lease income	**(5,275)**	(6,730)
Finance lease receivables – net (Note a)	**11,968**	13,333
Current receivables		
Finance lease receivables – gross	**2,820**	3,444
Less: unearned finance lease income	**(1,455)**	(1,635)
Finance lease receivables – net (Note a)	**1,365**	1,809
Trade receivables – gross	**23,241**	10,531
Less: provision for impairment of trade receivables	**(309)**	(841)
Trade receivables – net (Note b)	**22,932**	9,690
Other receivables	**10,784**	5,028
Prepayments	**7,927**	4,909
Amounts due from jointly controlled entities (Note c)	**2,546**	3,607
	45,554	25,043

The carrying amounts of trade and other receivables approximate their fair values and are mainly denominated in United States Dollars.

Notes to the financial statements

12 Trade and other receivables (continued)

(a) At 31 December 2006 and 2005, the Group leased out a vessel under a finance lease. Under the terms of the lease, the charterer has the obligation to purchase the vessel at the end of the lease period.

The effective interest rate for the finance lease receivables was fixed for the lease period at approximately 11.3% (2005: approximately 11.3%).

The gross receivables, unearned finance income and the net receivables from finance lease as at 31 December 2006 are as follows:

	Group	
	2006	2005
	US$'000	US$'000
Gross receivables from finance lease		
Not later than one year	**2,820**	3,444
Later than one year but not later than two years	**2,610**	2,820
Later than two years but not later than five years	**6,926**	7,228
Later than five years	**7,707**	10,015
	20,063	23,507
Less: unearned future finance income on finance leases	**(6,730)**	(8,365)
	13,333	15,142
Net receivables from finance lease		
Not later than one year	**1,365**	1,809
Later than one year but not later than two years	**1,306**	1,365
Later than two years but not later than five years	**3,869**	3,736
Later than five years	**6,793**	8,232
	13,333	15,142

Notes to the financial statements

12 Trade and other receivables (continued)

(b) At 31 December 2006, the ageing analysis of trade receivables is as follows:

	Group 2006 US$'000	2005 US$'000
Less than 30 days	**18,682**	7,636
31 — 60 days	**2,361**	603
61 — 90 days	**369**	593
Over 90 days	**1,520**	858
	22,932	9,690

Trade receivables consisted principally of voyage-related trade receivables. It is industry practice that 95% to 100% of freight is paid upon completion of loading, with the balance paid after completion of discharge and after the finalisation of port disbursements and other voyage-related charges.

There is no concentration of credit risk with respect to trade receivables, as the Group has a large number of customers, internationally dispersed.

(c) The amounts due from jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

Notes to the financial statements

13 Bank balances and cash

	Group 2006 US$'000	2005 US$'000
Cash at banks and on hand	**21,810**	61,081
Short term bank deposits	**41,432**	22,630
Bank balances and cash	**63,242**	83,711
Restricted bank balances included in non-current assets	**–**	(1,200)
Restricted bank balances included in current assets	**–**	(430)
Pledged/restricted bank balances and cash (Note)	**–**	(1,630)
Cash and cash equivalents	**63,242**	82,081
Effective interest rate of bank deposits	**5.19%**	4.10%
Average maturity of bank deposits	**18 days**	7 days

Note: The 2005 balances were pledged to secure certain facilities granted to the Group.

The carrying amounts of bank balances and cash approximate their fair values and are mainly denominated in United States Dollars.

At 31 December 2006, none (2005: Nil) of the bank balances and cash of the Company were placed on short term deposits.

14 Inventories

	Group 2006 US$'000	2005 US$'000
Bunkers	**13,353**	7,606
Lubricating oil	**2,290**	1,512
Marine products	**–**	20
	15,643	9,138

Notes to the financial statements

15 Trade and other payables

	Group	
	2006	2005
	US$'000	US$'000
Trade payables (Note a)	**13,661**	2,869
Accruals and other payables	**36,951**	31,780
Receipts in advance	**18,853**	9,918
Amounts due to jointly controlled entities (Note b)	**429**	–
	69,894	44,567

The carrying amounts of trade and other payables approximate their fair values and are mainly denominated in United States Dollars.

(a) At 31 December 2006, the ageing analysis of trade payables is as follows:

	Group	
	2006	2005
	US$'000	US$'000
Less than 30 days	**10,621**	1,437
31 — 60 days	**1,315**	248
61 — 90 days	**482**	326
Over 90 days	**1,243**	858
	13,661	2,869

(b) The amounts due to jointly controlled entities are unsecured, interest free and have no fixed terms of repayment.

Notes to the financial statements

16 Long term borrowings

	Group 2006 US$'000	2005 US$'000
Non-current		
Finance lease liabilities (Note a)	**285,925**	301,973
Secured bank loans (Note b)	**40,659**	–
	326,584	301,973
Current		
Finance lease liabilities (Note a)	**16,048**	14,912
Secured bank loans (Note b)	**7,833**	–
	23,881	14,912
Total long term borrowings	**350,465**	316,885

The carrying amounts of long term borrowings approximate their fair values and are mainly denominated in United States Dollars.

(a) At 31 December 2006, the Group leased vessels under finance leases. Under the terms of the leases, the Group has options to purchase these vessels at any time throughout the charter periods. Lease liabilities are effectively secured as the rights to the leased vessels revert to the lessors in the event of default.

The effective interest rates on finance lease payables were fixed for the various lease periods which range from approximately 6.6% to 7.0% (2005: approximately 6.6% to 7.0%).

Notes to the financial statements

16 Long term borrowings (continued)

(a) (continued)

The gross liabilities, future finance charges and net liabilities under finance leases as at 31 December 2006 are as follows:

	Group 2006 US$'000	2005 US$'000
Gross liabilities under finance lease		
Not later than one year	**36,186**	36,138
Later than one year but not later than two years	**36,122**	36,129
Later than two years but not later than five years	**108,306**	108,336
Later than five years	**258,405**	294,499
	439,019	475,102
Less: future finance charges on finance leases	**(137,046)**	(158,217)
	301,973	316,885
Net liabilities under finance leases		
Not later than one year	**16,048**	14,912
Later than one year but not later than two years	**17,078**	16,048
Later than two years but not later than five years	**58,932**	55,026
Later than five years	**209,915**	230,899
	301,973	316,885

Notes to the financial statements

16 Long term borrowings (continued)

(b) The bank loans as at 31 December 2006 are secured, inter alia, by the following:

(i) Mortgages over certain owned vessels of net book value totalling US$131,726,000 (Note 6); and

(ii) Assignment of earnings, insurances and requisition compensation in respect of the vessels.

The average effective interest rate of bank loans is 6.1% (2005: Nil).

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

	Group	
	2006 US$'000	2005 US$'000
Within one year	**7,833**	–
In the second year	**7,833**	–
In the third to fifth year	**23,499**	–
After the fifth year	**9,327**	–
	48,492	–

17 Share capital

	2006		2005	
	Number of shares of US$0.1 each	**US$'000**	Number of shares of US$0.1 each	US$'000
Authorised	**3,600,000,000**	**360,000**	3,600,000,000	360,000
Issued and fully paid				
At 1 January	**1,282,540,608**	**128,184**	1,267,010,609	126,701
Shares issued upon exercise of share options (Note a)	**18,112,000**	**1,811**	15,730,000	1,573
Shares purchased by trustee of the LTIS (Note b)	**(5,324,000)**	**(2,714)**	(5,000,000)	(2,252)
Shares transferred to employees upon granting of restricted share awards (Note b)	**5,745,408**	**2,904**	4,799,999	2,162
Shares transferred back to trustee upon lapse of restricted share awards (Note b)	**(222,221)**	**(100)**	–	–
Shares issued upon placing of new shares (Note c)	**257,000,000**	**25,700**	–	–
At 31 December	**1,557,851,795**	**155,785**	1,282,540,608	128,184

Notes to the financial statements

17 Share capital (continued)

(a) Share options

55,500,000 share options under the Company's Long Term Incentive Scheme ("LTIS") were granted to Directors, senior management and certain employees on 14 July 2004 at an exercise price of HK$2.5 per share to vest in equal amounts on 14 July 2005, 2006 and 2007 and expire on 14 July 2014. Movements in the number of share options outstanding during the year and their related weighted average exercise prices are as follows:

	2006		2005	
	Average exercise price per share HK$	**Number of options '000**	Average exercise price per share HK$	Number of options '000
At 1 January	**2.654**	**44,770**	2.500	55,500
Granted	**–**	**–**	3.875	5,000
Exercised (Note)	**2.500**	**(18,112)**	2.500	(15,730)
Cancelled	**3.875**	**(5,000)**	–	–
Lapsed	**2.500**	**(400)**	–	–
At 31 December	**2.500**	**21,258**	2.654	44,770

Note: The related weighted average price of the Company's shares at the time of exercise was HK$3.90 (2005: HK$3.87) per share.

Out of the 21,258,000 (2005: 44,770,000) outstanding share options, 5,958,000 (2005: 5,170,000) share options were exercisable at the balance sheet date.

(b) Restricted share awards

Restricted share awards under the LTIS were granted to Directors, senior management and certain employees. In 2006, the trustee of the LTIS (which under HKFRS is regarded as a special purpose entity of the Company) acquired 5,324,000 shares of the Company on the Stock Exchange at a total cost of US$2,714,000. During the year, 222,221 shares formerly transferred to an employee lapsed and 5,745,408 restricted share awards were granted to certain employees. The shares granted were then transferred to the employees with the remaining 814 (2005: 200,001) shares held by the trustee at 31 December 2006.

Notes to the financial statements

17 Share capital (continued)

(b) Restricted share awards (continued)

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

Date of grant	Number of share awards	Vesting conditions
8 June 2005	3,333,333	in equal amounts on 5 April 2006, 2007, 2008, 2009 and 2010
8 June 2005	1,466,666	in equal amounts on 30 November 2005, 2006 and 2007
9 March 2006	1,475,000	in equal amounts on 1 March 2007, 2008, 2009, 2010 and 2011
15 March 2006	300,000	in equal amounts on 1 March 2007, 2008, 2009, 2010 and 2011
20 March 2006	1,020,408	in equal amounts on 5 April 2006, 2007, 2008, 2009, and 2010
21 July 2006	450,000	in equal amounts on 23 August 2007, 2008, 2009, 2010 and 2011
19 September 2006	2,500,000	in equal amounts on 19 September 2006, 4 September 2008, 2009, 2010 and 2011

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

	2006 ’000	2005 ’000
At 1 January	**4,311**	–
Granted	**5,745**	4,800
Vested	**(1,748)**	(489)
Lapsed	**(222)**	–
At 31 December	**8,086**	4,311

The fair value of the restricted share awards granted during the year was determined with reference to the market price of those shares at the grant date.

(c) On 15 November 2006, the Company issued 257,000,000 new shares, with nominal value of US$0.10 each, at a price of HK$4.75 per share representing a discount of approximately 5% to the closing price of HK$5.00 per share as quoted on the Stock Exchange on 6 November 2006, being the date of the placing agreement. The proceeds of the placing, net of share issuing expenses of approximately US$2,801,000, amounted to US$154,297,000 (or HK$1,199,000,000) or HK$4.67 net per share. The placing was fully underwritten by Goldman Sachs (Asia) L.L.C. as the placing agent to more than six independent individual, corporate, institutional or other professional investors. The purpose of placing was to raise capital for investment predominately in handysize and handymax vessels whenever suitable opportunities arise and to extend the Group’s services beyond its traditional port to port offering to areas such as maritime infrastructure projects.

Notes to the financial statements

18 Reserves

	Group							
	Other reserves							
	Share premium US$'000	Merger reserve US$'000	Staff benefits reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Subtotal US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2006	110,953	(56,606)	1,797	(1,360)	(2)	54,782	126,308	181,090
Currency translation differences	–	–	–	–	20	20	–	20
Fair value losses of cash flow hedges (Note 11)	–	–	–	(2,973)	–	(2,973)	–	(2,973)
Shares transferred to employees upon granting of restricted share awards (Note 17)	–	–	(2,904)	–	–	(2,904)	–	(2,904)
Shares issued upon exercise of share options (Note 17)	5,967	–	(1,947)	–	–	4,020	–	4,020
Shares transferred back to trustee upon lapse of restricted share awards (Note 17)	–	–	100	–	–	100	–	100
Shares issued upon placing of new shares, net of issuing expenses (Note 17)	128,597	–	–	–	–	128,597	–	128,597
Shared-based compensation (Note 22)	–	–	2,518	–	–	2,518	–	2,518
Profit attributable to shareholders	–	–	–	–	–	–	110,292	110,292
Dividends paid (Note 26)	–	–	–	–	–	–	(91,552)	(91,552)
Balance at 31 December 2006	245,517	(56,606)	(436)	(4,333)	18	184,160	145,048	329,208
Representing:								
2006 Proposed final dividend							45,119	
Others							99,929	
Retained profits as at 31 December 2006							145,048	

Notes to the financial statements

18 Reserves (continued)

	Group							
	Other reserves							
	Share premium US$'000	Merger reserve US$'000	Staff benefits reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Subtotal US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2005	105,794	(56,606)	1,660	–	54	50,902	54,637	105,539
Currency translation differences	–	–	–	–	(56)	(56)	–	(56)
Fair value losses of cash flow hedges (Note 11)	–	–	–	(1,360)	–	(1,360)	–	(1,360)
Shares transferred to employees upon granting of restricted share awards (Note 17)	–	–	(2,162)	–	–	(2,162)	–	(2,162)
Shares issued upon exercise of share options (Note 17)	5,159	–	(1,691)	–	–	3,468	–	3,468
Shared-based compensation (Note 22)	–	–	3,990	–	–	3,990	–	3,990
Profit attributable to shareholders	–	–	–	–	–	–	147,143	147,143
Dividends paid (Note 26)	–	–	–	–	–	–	(75,472)	(75,472)
Balance at 31 December 2005	110,953	(56,606)	1,797	(1,360)	(2)	54,782	126,308	181,090
Representing:								
2005 Proposed final dividend							58,109	
Others							68,199	
Retained profits as at 31 December 2005							126,308	

Notes to the financial statements

18 Reserves (continued)

	Company				
	Other reserves				
	Share premium US$'000	**Staff benefits reserve** US$'000	**Subtotal** US$'000	**Retained profits** US$'000	**Total** US$'000
Balance at 1 January 2006	**110,953**	**1,797**	**112,750**	**104,320**	**217,070**
Shares transferred to employees upon granting of restricted share awards (Note 17)	**–**	**(2,904)**	**(2,904)**	**–**	**(2,904)**
Shares issued upon exercise of share options (Note 17)	**5,967**	**(1,947)**	**4,020**	**–**	**4,020**
Shares transferred back to trustee upon lapse of restricted share awards (Note 17)	**–**	**100**	**100**	**–**	**100**
Shares issued upon placing new shares, net of issuing expenses (Note 17)	**128,597**	**–**	**128,597**	**–**	**128,597**
Share-based compensation (Note 22)	**–**	**2,518**	**2,518**	**–**	**2,518**
Profit attributable to shareholders (Note 25)	**–**	**–**	**–**	**72,177**	**72,177**
Dividends paid (Note 26)	**–**	**–**	**–**	**(91,552)**	**(91,552)**
Balance at 31 December 2006	**245,517**	**(436)**	**245,081**	**84,945**	**330,026**
Representing:					
2006 Proposed final dividend				**45,119**	
Others				**39,826**	
Retained profits as at 31 December 2006				**84,945**	

	Company				
	Other reserves				
	Share premium US$'000	**Staff benefits reserve** US$'000	**Subtotal** US$'000	**Retained profits** US$'000	**Total** US$'000
Balance at 1 January 2005	105,794	1,660	107,454	24,718	132,172
Shares transferred to employees upon granting of restricted share awards (Note 17)	–	(2,162)	(2,162)	–	(2,162)
Shares issued upon exercise of share options (Note 17)	5,159	(1,691)	3,468	–	3,468
Share-based compensation (Note 22)	–	3,990	3,990	–	3,990
Profit attributable to shareholders (Note 25)	–	–	–	155,074	155,074
Dividends paid (Note 26)	–	–	–	(75,472)	(75,472)
Balance at 31 December 2005	110,953	1,797	112,750	104,320	217,070
Representing:					
2005 Proposed final dividend				58,109	
Others				46,211	
Retained profits as at 31 December 2005				104,320	

As at 31 December 2006, distributable reserves of the Company amounted to US$84.9 million (2005: US$104.3 million).

Notes to the financial statements

19 Direct costs

	2006 US$'000	2005 US$'000
Charter-hire expenses for vessels	**119,990**	29,459
Vessel operating costs	**38,409**	31,900
Depreciation of vessels	**32,221**	28,701
Shore based overheads	**23,475**	20,727
Cost of marine products sold and consulting services	**1,712**	3,965
	215,807	114,752

Vessel operating costs comprise all technical expenses that are incurred in operating the owned and finance leased vessels. These include crew expenses, stores and spare parts, repairs and maintenance expenses, insurance and other miscellaneous running costs.

20 Other operating income

	2006 US$'000	2005 US$'000
Bank interest income	**1,491**	392
Finance lease interest income	**1,635**	343
Fair value gain on forward freight agreements:		
— realised	**6,271**	–
— unrealised	**4,302**	–
	13,699	735

Notes to the financial statements

21 Operating profit

Operating profit is stated after charging/(crediting) the following:

	2006 US$'000	2005 US$'000
Auditors' remuneration		
— audit	**826**	660
— non-audit	**219**	293
Bunkers consumed	**91,396**	48,894
Depreciation		
— owned vessels	**17,158**	26,241
— leased vessels	**15,063**	2,460
— other owned property, plant and equipment	**1,178**	863
Employee benefit expenses including Directors' emoluments (Note 22)	**25,532**	23,439
Lubricating oil consumed	**3,156**	2,269
Net exchange losses	**341**	77
Operating lease expenses		
— vessels	**119,990**	29,459
— land and buildings	**1,640**	1,662
Provision for impairment of trade receivables[1]	**300**	646
Gains on derivative instruments not qualifying as hedges		
— bunker swap and forward contracts[1]	**(4,491)**	(7,603)
— forward freight agreements[2]	**(10,573)**	–
Losses on derivative instruments not qualifying as hedges		
— bunker swap and forward contracts[1]	**9,112**	436
— forward freight agreements[3]	**18,852**	180

1 Included in "Bunkers, port disbursements and amounts payable to other pool members"
2 Included in "Other operating income"
3 Included in "Other operating expenses"

Notes to the financial statements

22 Employee benefit expenses (including Directors' emoluments)

	2006 US$'000	2005 US$'000
Directors' fees	**268**	235
Salaries and bonus	**22,096**	18,528
Share-based compensation	**2,518**	3,990
Retirement benefit costs	**650**	686
	25,532	23,439

(a) Directors' emoluments

The Company's Board is currently composed of five (2005: four) executive Directors and six (2005: five) non-executive Directors.

The aggregate amount of emoluments payable to the Directors of the Company during the year was US$5.3 million (2005: US$5.0 million). Details of Directors' remuneration are disclosed in sections 2, 3 and 4 of the Remuneration Report on pages 60 to 65.

(b) Five highest paid individuals

The five individuals whose emoluments were the highest in the Group for the year include four (2005: four) Directors whose emoluments are reflected in note (a) above and amounted to US$4.3 million (2005: US$4.8 million). The emoluments payable to the remaining one individual (2005: one) during the year were US$0.7 million (2005: US$0.8 million). Further details are disclosed in section 6 of the Remuneration Report on pages 60 to 65.

23 Finance costs

	2006 US$'000	2005 US$'000
Interest on bank loans not wholly repayable within five years	**3,821**	11,548
Interest on finance leases not wholly repayable within five years	**21,171**	4,161
Loan arrangement fees	**28**	1,657
Other finance charges	**492**	588
Fair value (gain)/loss on interest rate swap contracts:		
– realised	**(118)**	1,001
– unrealised	**1,437**	(1,015)
	26,831	17,940

Notes to the financial statements

24 Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	2006 US$'000	2005 US$'000
Current taxation		
Hong Kong profits tax	**585**	548
Overseas tax	**309**	231
Underprovision of prior year	**241**	–
	1,135	779

Below is the reconciliation between taxation in the consolidated income statement and the aggregate tax at the domestic rates applicable to profits in the respective territories concerned.

	2006 US$'000	2005 US$'000
Profit before taxation	**111,427**	147,922
Less: share of profits less losses of jointly controlled entities	**(3,024)**	(3,491)
	108,403	144,431
Aggregate tax at the rates of taxation prevailing in the countries in which the Group operates	**1,226**	751
Income not subject to taxation	**(788)**	(333)
Expenses not deductible for taxation purposes	**456**	361
Underprovision of prior year	**241**	–
Taxation charge	**1,135**	779

There was no material unprovided deferred taxation at 31 December 2006 (2005: US$Nil).

Notes to the financial statements

25 Profit attributable to shareholders

The profit attributable to shareholders is dealt with in the financial statements of the Company to the extent of US$72,177,000 (2005: US$155,074,000).

26 Dividends

	2006 US$'000	2005 US$'000
Interim dividend paid of HK 20 cents (equivalent to US 2.6 cents) per share (2005: HK 30 cents or US 3.9 cents per share)	**33,443**	49,482
Proposed final dividend of HK 22.5 cents (equivalent to US 2.9 cents) per share (2005: HK 35 cents or US 4.5 cents per share)	**45,119**	58,109
	78,562	107,591

The dividends paid in 2006 and 2005 were US$91,552,000 (HK 55 cents or US 7.1 cents per share) and US$75,472,000 (HK 46 cents or US 5.9 cents per share) respectively. A proposed final dividend in respect of the year ended 31 December 2006 of HK 22.5 cents (equivalent to US 2.9 cents) per share, amounting to a total dividend of US$45,119,000, was declared on 5 March 2007. These financial statements do not reflect this dividend payable.

Notes to the financial statements

27 Earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's LTIS.

	2006	2005
Profit attributable to shareholders (US Dollars in thousands)	**110,292**	147,143
Weighted average number of ordinary shares in issue (in thousands)	**1,323,282**	1,270,944
Basic earnings per share	**US 8.33 cents**	US 11.58 cents
Equivalent to	**HK 64.69 cents**	HK 89.72 cents

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year after adjusting for the number of potential dilutive ordinary shares granted under the Company's LTIS but excluding the shares held by the trustee of the Company's LTIS.

	2006	2005
Profit attributable to shareholders (US Dollars in thousands)	**110,292**	147,143
Weighted average number of ordinary shares in issue (in thousands)	**1,323,282**	1,270,944
Adjustments for share options (in thousands)	**7,999**	12,483
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,331,281**	1,283,427
Diluted earnings per share	**US 8.28 cents**	US 11.46 cents
Equivalent to	**HK 64.30 cents**	HK 88.79 cents

Notes to the financial statements

28 Note to the consolidated cash flow statement

Reconciliation of operating profit to cash generated from operations

	Group 2006 US$'000	Group 2005 US$'000
Operating profit	**135,234**	162,371
Adjustment for:		
Interest income	**(3,126)**	(735)
Depreciation	**33,399**	29,564
Gain on disposal of property, plant and equipment	**(23,787)**	(23,516)
Write off of available-for-sales financial assets	**200**	–
Exchange differences	**24**	(56)
Unrealised losses/(gains) on derivative that do not qualify for hedge accounting excluding interest rate swap contracts	**9,662**	(4,124)
Share-based compensation	**2,518**	3,990
Operating profit before working capital changes	**154,124**	167,494
Increase in inventories	**(6,505)**	(2,574)
(Increase)/decrease in trade and other receivables	**(23,466)**	176
Increase in trade and other payables	**25,327**	8,924
Cash generated from operations	**149,480**	174,020

Notes to the financial statements

29 Commitments

(a) Capital commitments

	Group 2006 US$'000	2005 US$'000
Contracted but not provided for in relation to		
— vessel acquisitions and shipbuilding contracts	**216,805**	158,878
— investment in a jointly controlled entity	**–**	1,792
— land and buildings	**–**	907
Authorised but not contracted for		
— vessel acquisitions and shipbuilding contracts	**34,878**	–
	251,683	161,577

Capital commitments that fall due not later than one year amounted to US$128.0 million (2005: US$52.6 million).

(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 US$'000	**Vessels** US$'000	**Total** US$'000
At 31 December 2006			
Not later than one year	**846**	**118,906**	**119,752**
Later than one year but not later than five years	**358**	**142,454**	**142,812**
Later than five years	**–**	**23,728**	**23,728**
	1,204	**285,088**	**286,292**
At 31 December 2005			
Not later than one year	1,134	52,824	53,958
Later than one year but not later than five years	1,107	129,613	130,720
Later than five years	–	40,677	40,677
	2,241	223,114	225,355

The lease have varying terms ranging from 1 to 9 years. Certain of these leases have escalation clauses, renewal rights and purchase options.

Notes to the financial statements

29 Commitments (continued)

(b) Commitments under operating leases (continued)

(ii) The Group as the lessor

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

	2006 US$'000	2005 US$'000
Not later than one year	**38,223**	34,196
Later than one year but not later than five years	**15,955**	26,208
	54,178	60,404

The Group's operating leases are for terms ranging from 1 to 4 years.

30 Significant related party transactions

Significant related party transactions, which were carried out in the normal course of the Group's business, were as follows:

(a) Purchases of services

	2006 US$'000	2005 US$'000
Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") (Note i)	**333**	245
Amounts payable to China Line Shipping Limited (Note ii)	**5,220**	6,204
Amounts payable to Fujairah Bulk Shipping Limited (Note iii)	**2,122**	–

Notes:

(i) The Group entered into certain insurance contracts through Sun Hing, a related company in which 35% of its shareholding was held indirectly by Dr. Lee Kwok Yin, Simon, a Director and a shareholder of the Company.

(ii) The Group paid to China Line Shipping Limited, a jointly controlled entity, freight and charter-hire, net of bunkers, port disbursements and other charges which were calculated based on the vessel's pool points.

(iii) The Group paid to Fujairah Bulk Shipping Limited, a jointly controlled entity, charter-hire in relation to the charter of a vessel.

Notes to the financial statements

30 Significant related party transactions (continued)

(b) Sales of services

	2006 US$'000	2005 US$'000
Charter-hire income from Fujairah Bulk Shipping Limited (Note i)	**6,187**	–
Charter-hire income from Asia Logistics Group Limited (Note ii)	**–**	3,476
Commission income from Asia Logistics Group Limited (Note iii)	**–**	211

(i) The Group leased out certain vessels to Fujairah Bulk Shipping Limited, a jointly controlled entity.

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

(iii) The Group derived commission income from fixing of vessels for Asia Logistics Group Limited, a jointly controlled entity.

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

	2006 US$'000	2005 US$'000
Directors' fee	**268**	235
Salaries and bonus	**4,985**	4,613
Retirement benefit costs	**23**	11
Share-based compensation	**1,825**	2,090
Termination benefits	**–**	154
	7,101	7,103

Notes to the financial statements

31 Significant post balance sheet events

Subsequent to 31 December 2006, the Group has:

(a) entered into agreements with third parties to acquire two new vessels to be constructed, with a consideration of US$62.7 million in aggregate;

(b) entered into an agreement with a third party to sell and charter back a vessel, with net sale proceeds of US$23.5 million; and

(c) completed the sale of a vessel to a third party, with net sale proceeds of US$22.5 million.

After taking into account the acquisition of two new vessels to be constructed in (a) above and the subsequent payments of instalments after the balance sheet date, the capital commitments of the Group as at the date of the Annual Report are as follows:

	US$'000
In relation to vessel acquisitions and shipbuilding contracts	
– Contracted but not provided for	249,993
– Authorised but not contracted for	–
	249,993

Notes to the financial statements

32 Principal subsidiaries

At 31 December 2006, the Company has direct and indirect interest in the following principal subsidiaries:

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2006 %	Interest held 2005 %	Principal activities
Shares held directly:					
PB Management Holding Limited	The British Virgin Islands	12,313 shares of US$1 each	**100**	100	Investment holding
PB Vessels Holding Limited	The British Virgin Islands	101,118,775 shares of US$1 each	**100**	100	Investment holding and financing
Shares held indirectly:					
Abbot Point Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Beckley (HK) Limited	Hong Kong/ International	3,000,010 ordinary shares of US$1 each	**100**	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
Bright Cove Limited	Hong Kong	1 share of HK$1	**100**	100	Vessel owning
Bulk Ventures Limited	The British Virgin Islands	1 share of US$1	**100**	100	Investment holding
Cape Scott Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Cape Spencer Shipping Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Caterina (BVI) Limited	The British Virgin Islands/International	2,500,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Champion Bay Limited	The British Virgin Islands/International	1 share of US$1	**100**	–	Vessel owning and chartering
Crescent Harbour Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning

Notes to the financial statements

32 Principal subsidiaries (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2006 %	2005 %	Principal activities
Delphic Shipping (BVI) Limited	The British Virgin Islands/International	100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Eaglehill Trading Limited 鷹峯貿易有限公司	Hong Kong	1 share of HK$1	**100**	100	Vessel owning
Elizabay Limited	The British Virgin Islands/International	1 share of US$1	**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	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Foreview (HK) Limited	Hong Kong/ International	10 Class ‘A’ shares of US$1 each 2,500,000 Class ‘B’ shares of US$1 each	**100**	100	Vessel owning and chartering
Future Sea Limited	Hong Kong	1 share of HK$1	**100**	100	Vessel owning
Gold River Shipping Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Good Shape Limited	Hong Kong	1 share of HK$1	**100**	100	Vessel owning
Hawk Inlet Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Helen Shipping (BVI) Limited	The British Virgin Islands	100 shares of US$0.01 each	**100**	100	Vessel owning

Notes to the financial statements

32 Principal subsidiaries (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2006 %	2005 %	Principal activities
IHC Chartering Limited	The British Virgin Islands	10 share of US$1 each	**100**	100	Vessel chartering
IHC (UK) Limited	England & Wales	2 shares of GBP1 each	**100**	100	Provision of shipping management services
IHX (UK) Limited	England & Wales	1 share of GBP1	**100**	100	COAs for non-handysize business
International Handybulk Carriers Limited	The British Virgin Islands/Hong Kong	10 shares of US$1 each	**100**	100	Provision of shipping management services
International Handymax Carriers Limited	Hong Kong	1 share of HK$1	**100**	–	Provision of shipping management services
Judith Shipping (BVI) Limited	The British Virgin Islands/International	3,800,100 shares of US$0.01 each	**100**	100	Vessel owning and chartering
Juniper Beach Limited	The British Virgin Islands	1 share of US$1	**100**	–	Vessel owning
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	3,800,100 shares of US$0.01 each	**100**	100	Vessel owning
Lake Joy Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Lake Stevens Limited	Hong Kong	1 share of HK$1	**100**	100	Vessel owning
Mount Adams Limited	The British Virgin Islands/International	1 share of US$1	**100**	–	Vessel owning and chartering
Mount Baker Limited	The British Virgin Islands	1 share of US$1	**100**	–	Vessel owning

Notes to the financial statements

32 Principal subsidiaries (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2006 %	Interest held 2005 %	Principal activities
Mount Rainier Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Newman Shipping (BVI) Limited	The British Virgin Islands	2,600,100 shares of US$0.01 each	**100**	100	Vessel owning
Oak Harbour Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Ocean Falls Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Pacific Basin Agencies Limited 太平洋航運代理有限公司	Hong Kong/ International	1 share of HK$1	**100**	100	Holding company of Japan branch
Pacific Basin Chartering Limited	The British Virgin Islands/International	10 shares of US$1 each	**100**	100	Vessels chartering
Pacific Basin Chartering (No. 1) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 2) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 3) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 4) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 5) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 6) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering

Notes to the financial statements

32 Principal subsidiaries (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2006 %	2005 %	Principal activities
Pacific Basin Chartering (No. 7) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 8) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 9) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 10) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 11) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 12) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 13) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 14) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 15) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 16) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Chartering (No. 17) Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel chartering
Pacific Basin Middle East FZE	United Arab Emirates	1 share of AED1,000,000	**100**	–	Provision of advisory services
Pacific Basin Ship Management Limited	Hong Kong	1 share of HK$1	**100**	100	Provision of ship management services

Notes to the financial statements

32 Principal subsidiaries (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2006 %	2005 %	Principal activities
Pacific Basin Shipping Consulting (Shanghai) Limited 沛碧航運管理諮詢(上海)有限公司 [1&2]	PRC	US$200,000	**100**	100	Provision of ship consulting services
Pacific Basin Shipping (Australia) Pty Ltd	Australia	1 share of AUD1	**100**	100	Provision of ship consulting services
Pacific Basin Shipping (Canada) Limited	Province of British Columbia, Canada	1 common share without par value	**100**	100	Provision of shipping consulting services
Pacific Basin Shipping (HK) Limited 太平洋航運(香港)有限公司	Hong Kong	2 shares of HK$10 each	**100**	100	Provision of ship agency services
Pacific Basin Shipping (UK) Limited	England & Wales	2 shares of GBP1 each	**100**	100	Provision of ship consulting services
Pacific Basin Shipping (USA) Inc. [1]	The United States of America	100 shares of US$10 each	**100**	100	Provision of ship management services
PacMarine Services (HK) Limited	Hong Kong	2 shares of HK$1 each	**100**	100	Provision of surveying and consultancy services
PacMarine Services (UK) Limited [1]	England & Wales	1,000 shares of GBP1 each	**100**	100	Provision of surveying and consultancy services
PacMarine Services LLC	Texas, USA	1,000 units of US$1 each	**100**	–	Provision of surveying and consultancy services
PacMarine Services Pte. Ltd.	Singapore	1,000 shares of S$1 each	**100**	100	Provision of surveying and consultancy services

Notes to the financial statements

32 Principal subsidiaries (continued)

Company	Place of incorporation/ operation	Issued and fully paid share capital	Interest held 2006 %	2005 %	Principal activities
PBS Corporate Secretarial Limited	Hong Kong	1 share of HK$1	**100**	100	Provision of secretarial services
PMS Services Co., Ltd.	Korea	10,000 shares of 5,000 Won each	**100**	100	Provision of survey services
Port Angeles Limited	Hong Kong	1 share of HK$1	**100**	100	Vessel owning
Prince Rupert Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Taylor Shipping (BVI) Limited	The British Virgin Islands/Hong Kong	10 shares of US$1 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
Verner Shipping (BVI) Limited	The British Virgin Islands/Hong Kong	100 shares of US$0.01 each	**100**	100	Vessel chartering
Widen Holdings Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering
Willow Point Limited	Hong Kong/ International	1 share of HK$1	**100**	100	Vessel owning and chartering

[1] The financial statements of these subsidiaries have not been audited by PricewaterhouseCoopers. Their aggregate net assets and results for the year attributable to the shareholders of the Group amounted to approximately US$499,000 (2005: US$66,000) and US$223,000 (2005: net loss of US$91,000) respectively.

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