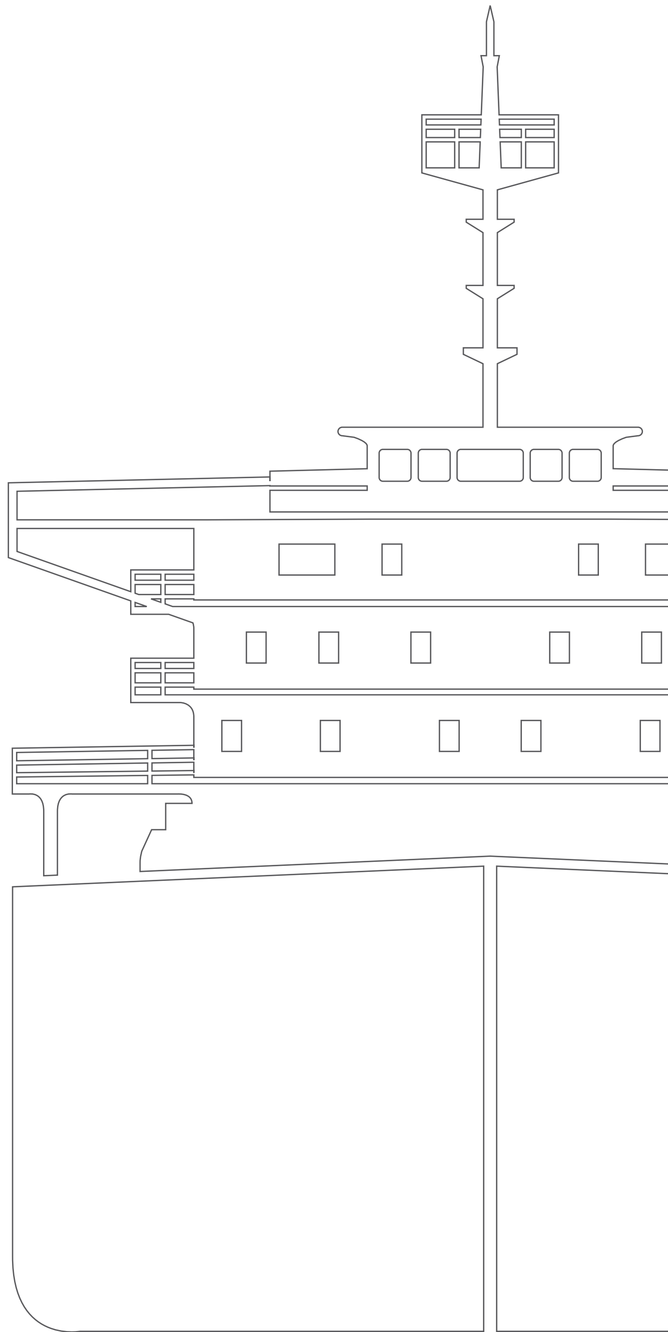
Pacific Basin Shipping Limited

(Incorporated in Bermuda with limited liability)

(Stock Code: 2343)

Interim Report 2006



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Interim Report of the Directors

SUMMARY

We are pleased to present the unaudited financial results of the Group for the six months ended 30 June 2006. Group profits for the period were US$36.4 million (2005: US$85.5 million) on net revenues of US$140.4 million (2005: US$140.9 million). Basic earnings per share were 2.83 US cents, equivalent to 21.95 HK cents (2005: 6.75 US cents or 52.30 HK cents).

Profits, which are now improving again, were down due to the weakest first quarter in the dry bulk markets for three years, the absence of any disposal gains (2005: US$12.2 million) and the cost (part real, part timing) of our entry into the handymax sector without the benefit of any owned tonnage. Turnover was maintained because we grew our overall volume of business by almost 40%.

In our core handysize business, the freight market produced daily time charter equivalent earnings in the period of US$14,400 (2005: US$18,600), a drop of US$4,200 per day on first half 2005 handysize revenue days which amounted to a reduction of some US$28.4 million in our results. Our newly formed handymax operations produced a realised loss in the period of US$2.3 million but are now profitable and prospects are good. Profits were, however, further reduced by accounting rules whereby movements in the mark to market values of our forward freight agreements (which we use exclusively for hedging future vessels and cargoes) are reflected in the current period. Despite having more handymax ships than cargoes in total through this year and thereafter, on a market which is now rising, we have had to book an unrealised but locked-in US$3.5 million paper loss for the period. At current market rates or above, our future results will increase by more than this amount as we execute the counterbalancing physical positions during the remainder of 2006 and 2007.

What looks like a cyclical recovery in the dry bulk freight market began in May and is now showing unseasonal strength. July produced our best daily handysize revenues this year, and the handymax 2007 freight futures index is now up by almost 100% against the first quarter of the year. All of this augurs well for our rapidly expanding business: we increased the volume of cargo carried for our customers from 6.1 million tonnes to 8.5 million tonnes year on year. Although adversely affecting our first half results, the initially weak market gave us an opportunity to invest some of the proceeds of our earlier sale and charter back programme in expanding our fleet, paying prices well below last year's levels. In the first half of 2006 we committed to acquiring an additional five handysize and two handymax second hand vessels (which will all contribute to this year's result), and three additional handysize newbuildings (of which one will deliver in 2007 and two in 2009). Whereas our fleet (including newbuilding commitments) stood at 60 vessels at the end of 2005, this reached 71 vessels in August 2006.

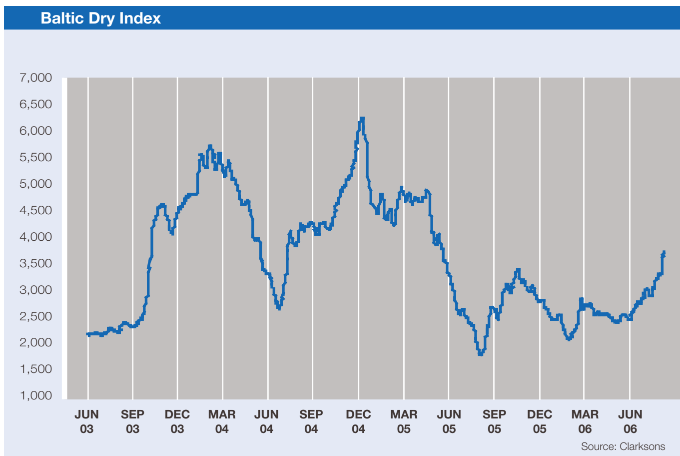
Taking all these factors into account, the Board has declared an interim dividend of 20 HK cents per share (2005: 30 HK cents per share) and has reaffirmed that the full year dividend is expected to be at least 40 HK cents per share. This high level of dividend payout reflects the confidence of the Board in the Company's prospects and in the dry bulk markets.

Pacific Basin intends to continue expanding its business, spearheaded by the International Handybulk Carriers ("IHC") and International Handymax Carriers ("IHX") pools. We believe in the merits of being able to provide handymax as well as handysize services, despite the handymax start up cost. We are encouraged by the support that IHC and IHX receive from our customers which, we believe, reflects our large, modern fleet; our network of offices positioned close to our customers; and our strong, publicly visible balance sheet. We are committed to continued improvement in the way we respond to our customers' changing demands. Having our Group headquarters and largest office in Hong Kong allows us to take advantage of the many shipping opportunities both to and from China, and in the other expanding economies of the region including Japan, South Korea and India. Pacific Basin is still the only company specialised in the provision of handy bulk services that combines all these attributes.

MARKET REVIEW

The first half of 2006 proved to be an exciting and transitional period for dry bulk shipping. Although spot freight rates were lower than in the first half of 2005 – indeed, even lower than we had budgeted internally – we saw the first signs in June/July that the market had absorbed the weight of a record volume of scheduled new deliveries, and that it was embarking on what now looks to be a new cyclical upswing.

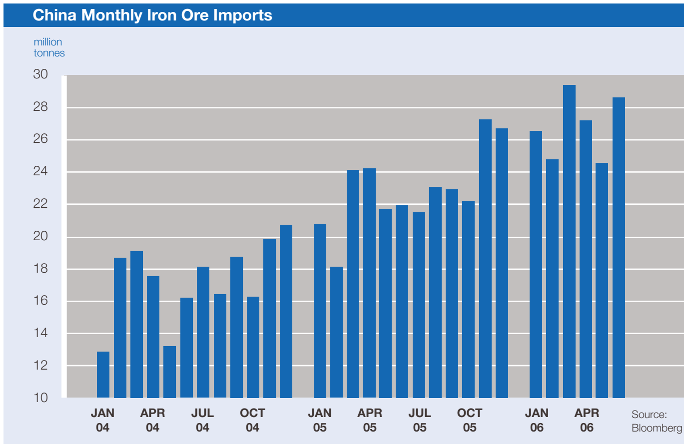
The Baltic Dry Index (BDI), which tracks spot freight rates for capesize, panamax and handymax (but not handysize) vessels, opened 2006 at 2438 points, steadily declined to 2033 points on 25 January and then fluctuated between 2300 and 2800 points until late June when it resumed its ascent. At 20 August 2006, it stood at 3755 points. The BDI in July averaged some 3050 points, some 25% above the average of 2440 points in the first quarter. This recent relative strength of the market is contrary to the seasonal trend of the past two years which saw BDI averages in July 2004 and 2005 some 28% and 51% below respective first quarter averages. The main reasons for traditional summer weakness in the BDI are the slowing of iron ore volumes in the aftermath of the 1 April iron ore re-pricing, a reduction in northern hemisphere coal imports due to less demand for heating, disruption to trade caused by the Indian monsoon, and lower grain shipments. In the summer of 2006, the market has strengthened despite a further increase in the dry bulk fleet of about 7% in the period ended June 2006. These figures illustrate the strength of underlying demand in absorbing the increased supply.



In the handysize market, spot rates in the Pacific, where over 85% of the IHC fleet operates, started the year at US$12,500 per day for a benchmark 28,000 deadweight tonnes (dwt) vessel and traded at this level for most of the first quarter, although dropping to US$11,000 per day at the end of January. However, during March, the Pacific market firmed considerably on strong demand for commodities, particularly cement and steel for the construction sector, and rates moved up to an average of about US$15,000 per day in the second quarter. Rates have since improved further up to US$17,500 per day. In the Atlantic, spot rates opened the year at US$11,750 per day and fell as low as US$9,000 per day in early February before recovering towards the end of the second quarter: the two regions are now trading at similar levels.

In the overall dry bulk market, the appetite for commodities has not only remained strong but has exceeded the record levels set in 2005. The strength of demand can be illustrated by reference to the iron ore trades, the coal trades and the steel trades. Statistics for these commodities are more reliable than for many of the minor bulks which are traded between a very large number of shippers and consignees over a similarly daunting list of port pairs, making them much harder to collate. We also look at the cement trades, which have shown particular growth in the past year.

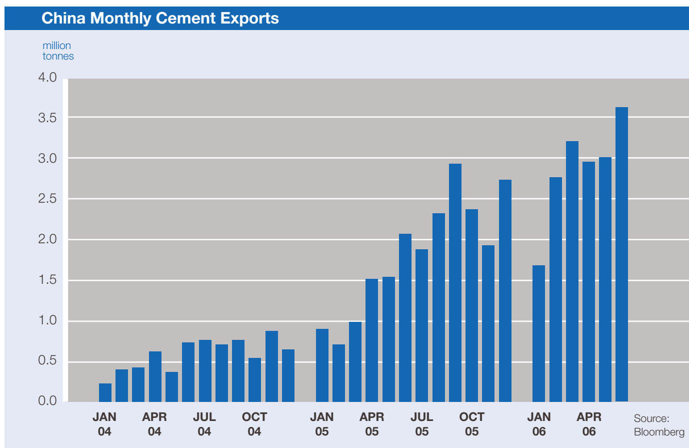
- China is the world's largest importer of iron ore, which is the most important commodity for dry bulk shipping. Much of the first quarter was consumed with speculation as to what would happen to iron ore prices from 1 April 2006 and the implications for dry bulk demand. On the one side Chinese iron ore importers, still smarting from the 71% price increase which was imposed in 2005, signaled weakening demand in the hope of achieving a price reduction or, at worst, a small increase. The major iron ore exporters signaled the opposite. The final outcome was a 19% increase from 1 April meaning that iron ore contract prices are now more than double 2004 levels. Despite the price increase, iron ore imports in the first half of 2006 were up by 23% on the first half of 2005, by 64% on the first half of 2004 and by 120% on the first half of 2003.



- High oil and gas prices have contributed to an encouraging outlook for coal, which is almost as important to dry bulk shipping as iron ore. Increased Chinese domestic demand has meant that Chinese exports, mainly to other Far Eastern countries, has reduced and these countries are importing from further afield, increasing tonne-mile demand. At the same time Chinese coal imports have grown in the first five months of 2006 to an annualised figure of 38 million tonnes, representing 46% growth over the full year 2005. With so many domestic mine safety issues and China's unrelenting appetite for energy, this trend, which is highly beneficial to dry bulk shipping, is expected to continue.

- Whereas the growth in the iron ore trade follows a long term trend driven by the increased production and consumption of steel in China, the recent increase in the trade of steel products has caught the market by surprise. Chinese steel exports to the US have surged this year because Chinese steel production has outstripped domestic consumption resulting in lower domestic pricing whereas the opposite has happened in the US. Chinese steel mills were quick to exploit the opportunity, and exports during the first half of 2006 increased to an annualised rate of 34.2 million tonnes, which is 48% more than the same period last year and 91% more than the second half of 2005. The main beneficiary for this pick-up in trade is the handymax sector.

- As with coal, China is the world's largest producer and consumer of cement, producing a little over one billion tonnes of cement in 2005 (up from around 600 million tonnes per annum in 2001). Chinese expansion of production capacity is now running ahead of local consumption, creating a surplus. As a result, China has expanded its exports from 7 million tonnes in 2004 to about 22 million tonnes in 2005, and (at an annualised rate) to about 35 million tonnes in the first half of 2006. These volumes are being delivered mainly to the US markets on handymax vessels, and are absorbing almost all of the new handymax deliveries.



Vessel supply and scrapping

As expected the first half of 2006 saw a high number of dry bulk newbuilding deliveries. Annualised net fleet growth of 7.2% during the first six months of the year was similar to the last six months of 2005, representing the highest level of deliveries for more than 20 years. Although order book data for future deliveries is not completely reliable, we believe we can now look forward to the rate of fleet expansion abating. Scrapping levels have increased this year, with as much dry bulk tonnage removed in the first half of 2006 as in the whole of 2004 and 2005 combined: this was mainly a reaction to freight market weakness in the first

quarter, showing how responsive scrapping can be to freight sentiment. However, from a wider historical viewpoint, scrapping remains at low levels, increasing the backlog of over-aged vessels trading towards the end of their economic lives.

Growth in the world handysize (25,000 – 35,000dwt) fleet has been much lower and, with negligible scrapping, the average age of that fleet has moved up to nearly 18 years, in large part because about 30% of the ships are over 25 years old. Whilst handysize shipowners have been able to keep older vessels trading in the prevailing strong market, scrapping cannot be delayed indefinitely as rigorous regulatory requirements and statutory inspections become increasingly problematic for owners of over-age tonnage. Maintenance, survey and repair costs increase with vessel age and this will eventually make older ships uneconomic to trade. All this means that, in our handysize segment, we can be confident that supply will remain tight for some years to come.

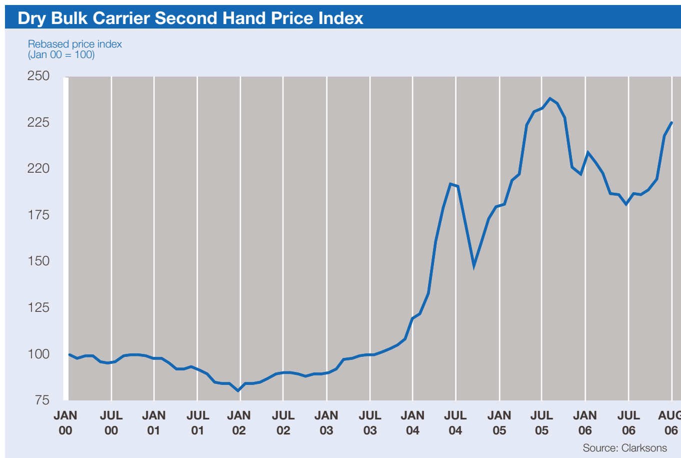
Vessel prices

At the outset of 2006, overall dry bulk second hand prices were in decline after hitting record high levels in the second quarter of 2005. By February this year values had reduced by around 25% from their peaks. As market confidence improved through the second quarter, however, and it became increasingly clear that there would not be a “fire sale” during the summer, buyers started to come back and prices picked up. We have been able to execute a number of attractive purchases during the second quarter at levels significantly below last year’s pricing. Further discussion on this can be found in the Business Review below.

Shipyards are generally full, with forward order books stretching to 2009 consisting mainly of containerships, tankers, and gas carriers, all of which are more profitable for shipyards to build than dry bulk carriers. As a result, there is limited available yard space for dry bulk vessels. Buyers who need ships for trading now have no alternative but to turn to the second hand market which has seen prices continuing to increase into the third quarter of this year. Although there is plenty of buying interest, owners of modern handysize vessels are reluctant to sell, creating a void of sales transactions in this sector. Values are therefore more difficult to set, but there can be no doubt that this sector has followed the trend seen for larger vessels with prices moving up strongly. This means that a five year-old 28,000dwt

vessel is now estimated to be worth US$26 – US$27 million, compared to about US$21 – US$22 million at the start of the year. For handymax vessels there have been more transactions to set values against, and, whereas the value for a five year-old 52,000dwt was estimated at the start of the year to be about US$26 million, it is over US$34 million today. This sharp recovery in sale and purchase values reflects the much more positive attitude now prevailing in the dry bulk freight markets.

The following graph illustrates price development using Clarksons' price index for second hand bulk carriers since January 2000:



BUSINESS REVIEW

Handysize operations

We aim to be the leading provider of handysize and, in time, handymax freight solutions to the world's major industrial and commodities companies. As we are an integral part of our customers' supply chains, it is essential that we deliver an efficient, cost-effective and reliable service. With many years of experience in our market niche, a network of offices around the regions we serve, and one of the largest fleets of uniform, modern handysize

bulk carriers, we seek to provide our customers with access to dedicated high quality tonnage at a time when growing demand is placing greater pressure on an old and increasingly inefficient world fleet.

Our IHC Pool remains at the forefront of delivering handysize services to our customers in the Asia Pacific region and in the Atlantic. Key points to note for this period are:

- In the first six months of 2006, the IHC Pool handled over 7.3 million tonnes of cargo (2005: 6.1 million tonnes) with China, Japan and Korea continuing to be our core front-haul delivery destinations. This represents an increase in IHC's business volume of 20%. We carried this additional cargo via increased owned and long term chartered core fleet revenue days (up by 12% to 7,570 in the first half of 2006) and by using more short term charters to complement our core fleet.

- IHC maintained its earnings well above the prevailing spot market through long term cargo commitments and success in improving its asset utilisation, which continues to be a key focus of management. Through the careful matching of front-haul and back-haul cargoes we maintained our ballast time at around 14%. Our average handysize earnings during the period were US$14,400 per day compared to a spot market average for the period of US$13,100 per day. Our cargo cover, therefore, contributed significantly to our first half results.

- At 20 August 2006, we had covered 77% of our 8,620 handysize revenue days for the second half of 2006 at an average rate of approximately US$14,500 per day: this rate includes a premium of about US$1,000 per day above the base contract rate which we expect to achieve on executing voyages. As a result, for the year as a whole, we have either completed or covered over 88% of our 16,190 handysize revenue days at an average daily rate of just over US$14,400. Furthermore we already have cover for 23% of the 18,550 revenue days that our existing fleet is expected to provide in 2007 at about US$14,000 per day (including our estimated US$1,000 execution premium), and we have made a solid start towards building our book for 2008. Most contract negotiations take place in the fourth quarter and we expect to build our cargo book further at that time. In this respect, rate discussions

will take into account the recent rise in the market which has seen spot earnings for a 28,000dwt vessel increase to about US$17,500 per day. If our customers can lock in forward cover for all or part of their freight exposure then they may be able to do more business because this element of their trading exposure has been covered for the coming year or for longer, according to their preference. There are still virtually no other operators in this sector with a large, modern fleet, and a strong, visible balance sheet that can serve handysize shippers in this way.

For ease of reference, we set out below details of our handysize vessel and cargo commitments in 2006 – 2007 as at 20 August 2006 in tabular form:

Handysize Activity Summary	Actual		Estimates		
	2005	1H 2006	2H 2006	2006	2007
Cargo Commitments (in days)					
Physical contracts	14,200	7,570	6,680	14,250	4,330
Ship Commitments (in days)					
Physical contracts	14,200	7,570	8,620	16,190	18,550
Net Position					
Long/(short) days	–	–	1,940	1,940	14,220
Cargo as % of ship commitments	100%	100%	77%	88%	23%

Handymax operations

We commenced our handymax activity, under the brand name "IHX", in response to customers' demands for us to cover their handymax as well as their handysize freight transportation needs. We were fortunate to attract a small number of key staff to join us in London and in Shanghai and we have been able to give them access to IHC's customer base via Pacific Basin's network of offices. This operation thereby got off to a most encouraging start in terms of its volume of activity and in establishing itself with customers as a credible participant in the handymax sector. We carried 1.2 million tonnes of cargo during the period and earned time charter equivalent revenues of US$23.9 million (2005: US$3.0 million). As at 20 August 2006, we had a committed fleet of 20 vessels, of which 14 vessels are on charter for periods of up to 12 months. There was, however, a cost of entry with a loss of US$2.3 million in the period. This was due in part to the fact that we

commenced operations using relatively high cost short term chartered vessels and in part to the fact that we had forecasted the freight market to show strength in the first quarter and then to decline in the second and third quarters of the year, as it had done in 2004 and 2005.

We addressed both these issues in the second quarter by aggressively chartering in ships on period and by taking advantage of off-market opportunities to acquire two modern, handymax vessels. This strategy has provided us with lower cost, long term tonnage and has effectively reversed our handymax position so that we are now long on ship days in the second half of 2006 and thereafter. As a result of these steps, our handymax activity is now trading profitably and we are benefiting from the strengthening market. We intend to continue expanding and developing our handymax operations to become a major part of our business.

As we build our freight book, we consider it prudent to make limited use of forward freight agreements (FFAs) exclusively to hedge the positions we have taken in chartering physical ships and contracting physical cargoes. The use of these instruments requires tight management control. Our overall book and exposure, which is managed by our tonnage committee, is monitored by our Board's Executive Committee. We are required to "mark to market" FFAs at the end of each reporting period, and as at 30 June 2006 our accounts reflected a net unrealised "loss" of US$3.5 million relating to positions in future accounting periods which we have closed out as our business has developed. The accounting standards have the effect of shifting the financial performance of these future period contracts into the current reporting period, which is at odds with the way we use FFAs to commercially manage the related underlying Company exposure to physical ships and cargoes. Moreover the "losses" on these FFA contracts charged to the period would, at today's market levels, be more than compensated for by future period profits as we execute our counterbalancing physical positions during the remainder of 2006 and 2007. The use of freight futures may seem to complicate our reporting but this is not the fault of the instruments themselves which are, we believe, an important and increasingly essential part of our business.

As at 20 August 2006, we had cargo cover for our committed handymax ship days (before FFAs) for the second half of 2006 at an average daily rate of US$18,000 and for 2007 at an average daily rate of US$13,600. These figures include the effect of two handymax ships on five year charters to COSCO at long term rates fixed in 2003.

We set out below a table showing the Company book of handymax vessels, cargoes and FFAs as at 20 August 2006. This shows an overall "long" position of 554 days in 2006 and 1,240 days in 2007. We are therefore positioned to benefit significantly if the market remains at present levels or strengthens further:

Handymax Activity Summary	Actual		Estimates		
	2005	1H 2006	2H 2006	2006	2007
Cargo Commitments (in days)					
Physical contracts	760	1,680	2,460	4,140	1,400
Paper contracts	–	454	1,012	1,466	365
Equivalent revenue days	760	2,134	3,472	5,606	1,765
Ship Commitments (in days)					
Physical contracts	760	1,680	3,290	4,970	2,640
Paper contracts	–	302	736	1,038	365
Net realised paper exposure	–	152	–	152	–
Equivalent revenue days	760	2,134	4,026	6,160	3,005
Net Position					
Equivalent long/(short) days	–	–	554	554	1,240
Cargo as % of ship commitments	100%	100%	86%	91%	59%

Finally, we present a table that shows our combined handysize and handymax vessel and cargo commitments in 2006 – 2007 as at 20 August 2006. This shows an overall "long" position of 2,494 days in 2006 and 15,460 days in 2007. Again, this indicates that we are well positioned to benefit from a steady or rising market.

Combined Activity Summary	Actual		Estimates		
	2005	1H 2006	2H 2006	2006	2007
Cargo Commitments (in days)					
Physical contracts					
– Handysize	14,200	7,570	6,680	14,250	4,330
– Handymax	760	1,680	2,460	4,140	1,400
Paper contracts	–	454	1,012	1,466	365
Equivalent revenue days	14,960	9,704	10,152	19,856	6,095
Ship Commitments (in days)					
Physical contracts					
– Handysize	14,200	7,570	8,620	16,190	18,550
– Handymax	760	1,680	3,290	4,970	2,640
Paper contracts	–	302	736	1,038	365
Net realised paper exposure	–	152	–	152	–
Equivalent revenue days	14,960	9,704	12,646	22,350	21,555
Net Position					
Equivalent long / (short) days	–	–	2,494	2,494	15,460
Cargo as % of ship commitments	100%	100%	80%	89%	28%

Other operations

We have continued to strengthen our network of regional offices to ensure that we offer our customers direct and local access to our chartering and operations teams. We have further increased our presence in Melbourne, Vancouver and Tokyo, and we have established new offices in Dubai and Fujairah to complement those already existing in Hong Kong, Shanghai, Beijing and London. This network of offices allows us to execute voyages more efficiently and to continue adding to our book of forward cargo cover, both of which are critical in optimising our fleet utilisation.

In China, we continue to develop our relationship with the largest domestic power producer with a longer-term view to co-operating in their future international coal trades.

On another front, and as reported earlier, we have been introduced to an opportunity to acquire up to six mini-bulk carriers of 6,600dwt at attractive prices from a shipyard in Northern China. Through a jointly controlled entity with one of our Chinese partners, we have signed a contract for two firm vessels with options for four more. These ships carry the same types of cargoes as Pacific Basin's handysize vessels and should improve our chances of participation in the Chinese short sea trades, providing a profitable extension of our core business.

At the same time we are actively exploring a number of other new initiatives where we can apply our skills to help our customers cope with escalating demand for bulk transport in the Chinese trades. Our customers are, increasingly, asking us to provide solutions for their entire supply chain (whereas our present services are primarily port to port). We have therefore established a team led by Mr. C.L. Wang, formerly Assistant President at Sinotrans, one of China's largest transportation companies, to develop such initiatives. One serious opportunity now under investigation is for Pacific Basin to become the primary ship-owning partner and co-investor alongside the local Port Authority in a major cargo facility in China where the draft limit favours our handy bulk services.

We are also developing our business in the Middle East, where economic activity continues to be fuelled by record high energy prices. Our joint venture with the Government of Fujairah, which we initiated in January 2006 with one of our handysize vessels, now employs up to three additional handymax vessels sourced from the market by our new handymax operating unit. This will enable the joint venture, Fujairah Bulk Shipping Limited, to increase further its carriage of aggregates between Fujairah and ports in the northern Gulf. This development well illustrates the advantage to our customers and business partners of our access to both handysize and handymax tonnage. We have also opened an office in Dubai to serve as a base from which to expand our marketing presence in the Middle East and South Asia.

These moves should, over time, significantly strengthen Pacific Basin and enhance our returns to shareholders.

Fleet developments

	Number of vessels			
	Owned	Chartered	Managed	Total
Handysize – in operation				
As at 1 January 2006	17	27	4	48
Newbuilding delivered	–	1	–	1
Second hand purchases	4	–	(2)	2
Exercise of purchase option of a long term chartered in vessel	1	(1)	–	–
New chartered in	–	3	–	3
Charter expired	–	(1)	–	(1)
As at 20 August 2006	**22** [1]	**29**	**2**	**53**
Handysize – newbuildings				
As at 1 January 2006	6	4	–	10
New orders	3	–	–	3
Newbuilding delivered	–	(1)	–	(1)
As at 20 August 2006	**9**	**3**	**–**	**12**
Handysize fleet as at 20 August 2006	**31**	**32**	**2**	**65**
Handymax – in operation				
As at 1 January 2006	–	2	–	2
Second hand purchases [2]	2	–	–	2
New chartered in	–	2	–	2
Handymax fleet as at 20 August 2006	**2**	**4**	**–**	**6**
Total fleet as at 20 August 2006 including newbuildings	**33**	**36**	**2**	**71**

1 Includes “Ocean Bulker” to be renamed “Willow Point” for delivery by the end of September 2006

2 Includes “Star Victory” to be renamed “Pacific Victory” for delivery by the end of October 2006

At the start of the year our handysize fleet of 48 vessels comprised 17 owned, 27 chartered and four managed vessels plus ten newbuildings under construction, six of which were expected to enter the owned fleet and four to enter the long term chartered fleet from delivery. We also had two chartered handymax vessels in operation.

During the period, “Duncan Bay” was delivered into our chartered handysize fleet, as scheduled, in February, and we were able to purchase four additional second hand handysize ships each in private, off-market transactions. These consisted of two previously managed ships (now renamed “Ocean Falls” and “Hawk Inlet”) and “Atlantic Venus” (now renamed “Prince Rupert”) which have been delivered to us during the period, and “East Tender” (now renamed “Mount Adams”) that has been delivered to us in August. We also exercised our purchase option in respect of a chartered vessel, “Shinyo Challenge” (now renamed “Mount Cook”), which has now been delivered to the owned fleet.

In conjunction with the purchase of “East Tender”, we entered into an agreement to purchase a 32,600dwt log bulk carrier currently under construction in Japan that is due for delivery in the first quarter of 2007. Furthermore, we have exercised our options attached to the four shipbuilding contracts which we entered into with Jiangmen Nanyang Shipyard in China in December last year, to contract two additional 32,500dwt newbuildings with expected delivery in 2009. This takes the total number of ships which we have on order at Jiangmen Nanyang Shipyard to six at prices that now look very competitive indeed.

Besides the above we were, during the period, able to long term charter in three additional handysize vessels, one of which is a newbuilding which entered into our chartered fleet upon its delivery in July. Against this, “Ocean Star” completed her charter and left the fleet.

For our handymax fleet, during the period we entered into agreements for the purchase of two vessels, namely “Falcon Trader” (now renamed “Pacific Trader”) and “Star Victory” (to be renamed “Pacific Victory”). The former was delivered to our owned handymax fleet in mid August while the latter is currently expected to deliver to us by the end of October this year. We also chartered in two additional handymax ships during the period on a long term basis.

No vessel sales or sales and charter backs have been effected during the period.

As a result of the above, our handysize fleet comprises 65 vessels, including 22 owned, 29 chartered, two managed vessels and 12 newbuildings on order, two of which are scheduled to deliver in 2006, four in 2007, three in 2008 and three in 2009. Our handymax fleet comprised two owned and four chartered vessels.

We hold purchase options on 24 out of the 29 chartered handysize vessels, all three chartered newbuilding vessels, and two out of the four chartered handymax vessels. These options have significant value, given that the strike prices (as detailed on page 30 in this Interim Report) are well below current market values.

The handymax fleet list does not include short term chartered in vessels. We define "short term" as less than 12 months.

DIVIDENDS

The Company's stated dividend policy is to distribute not less than 50% of available profits, with the potential to distribute more than this when the strength of the Group's results, business and prospects indicates that this is appropriate. In accordance with this policy, the Board has declared an interim dividend of 20 HK cents per share, which will be paid on 7 September 2006. The register of members will be closed from 29 August 2006 to 30 August 2006 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 28 August 2006.

The decision by the Board to pay out 91% of the Group's profits for the period reflects the strength of the Group's balance sheet following its successful sale and charter back programme last year and the positive outlook that prevails for the dry bulk market. The Group's strategy of booking forward contract cover for a significant portion of its revenues adds predictability to its future revenues and cashflows and, consequently, to the level of dividends which can be paid to shareholders. Following the payment of the 2006 interim dividend, the Group will still have distributable profits of over US$71 million. Taking these

factors into account the Board currently expects to be able to propose a final dividend for the year of at least an additional 20 HK cents per share, bringing the total for the year to at least 40 HK cents. Further, the Board expects that it will be able to maintain a generous approach, if circumstances so permit, to the declaration of interim and final dividends for the 2007 financial year. Any such recommendations will be made barring unforeseen circumstances and will be subject to the Board's responsibilities to ensure that the Group has adequate resources to meet all of its financial obligations and to continue the development of the business.

OUTLOOK AND PROSPECTS

Our view of the outlook and prospects for the second half of 2006 is positive. Demand for dry bulk tonnage has remained remarkably strong and looks set to produce over 5% year on year growth in 2006. This level of demand, which has surprised many, seems to have absorbed the supply of new tonnage and produced summer market rate levels which, with the exception of the peak year of 2004, are at all time highs. The potential for rate "spikes" may still exist given that the underlying causes – tight supply/demand balance coupled with increasing port congestion – remain. We believe, therefore, that dry bulk shipowners with the right tonnage and market position will continue to operate profitably. Demolition remains at historically very low levels but scrapping decisions cannot be deferred forever and shipowners are under increasing regulatory pressure to remove ships that pose safety risks and threaten the environment. This is particularly true in the handysize sector, where 30% of the world's fleet is over 25 years old and where growth is lowest irrespective of scrapping – scheduled new deliveries between now and 2009 represent an annual growth rate of approximately 3% in the total handysize fleet. This figure will be further reduced by the inevitable scrapping.

Present cover levels in our core handysize business give us good visibility over our earnings and dividends for the second half of the year. But the effect of the improving spot market on our revenues in 2006 will be limited and should more fully be reflected in better rates for cargo cover in 2007 and 2008 as charterers revise their forward freight market projections. In building our forward cargo book we seek to achieve greater stability in our revenues and cashflows, whilst at the same time providing our customers with longer term access to

modern tonnage and certainty over their own freight costs. We are confident that we will be able to commence next year with a good proportion of our 2007 revenues locked in at profitable rates.

So, after a quiet start to the year in terms of freight rates, and with our first half earnings impacted by the commencement of handymax operations, we believe that we are now well positioned for the second half of this year and beyond. We consider ourselves fortunate to have been able to purchase ships at prices well below those prevailing last year and we will continue to look for attractive expansion opportunities. However, the dry bulk market now looks likely to experience another cyclical upswing and this is becoming reflected in asset prices. Therefore, in order to continue our growth, we will continue to explore other opportunities for expansion over and above piecemeal vessel acquisitions.

Meanwhile, our balance sheet position remains strong. We have available cash plus potential bank borrowings of over US$180 million, after allowing for the interim dividend. This gives us spending power of over US$450 million before considering future operating cash flows, based on our normal policy of borrowing at 60% of the fair market value of a vessel. Out of this total, some US$280 million has so far been committed to investment in vessels in 2006 – 2009, reflecting our confidence in the dry bulk market. We are well positioned to act swiftly should opportunities to expand our business further present themselves.

Our strong management team is further complemented by the addition of Mr. Klaus Nyborg, who was appointed to the role of Deputy Chief Executive Officer starting this September, as announced on 2 June 2006. Prior to this new role, Mr. Nyborg served as Chief Financial Officer and an executive director of A/S Steamship Company Torm, and brings many years of senior executive experience in the shipping industry to Pacific Basin. Another notable management development is the appointment of Mr. C.L. Wang to our Board's Executive Committee, also starting this September. This recognises the great importance of Mr. Wang's activities in developing Pacific Basin's business in China.

Finally, having now completed two years as a listed company, we would like to thank our customers, shareholders and employees for their on-going support and help. We have every reason to be optimistic about the future development of our Group.

Richard M. Hext
Chief Executive

Hong Kong, 22 August 2006

Shareholders and investors are reminded that this Interim Report for the six months ended 30 June 2006 is based on the Group's internal records and management accounts. Shareholders and investors are cautioned not to rely unduly on this Interim Report and are advised to exercise caution when dealing in the shares of the Company.

Management Discussion and Analysis

INCOME

The Group is principally engaged in the provision of dry bulk shipping services through the operation of vessels. During the six months ended 30 June 2006, turnover was US$239.4 million as compared with the corresponding period last year of US$228.9 million. Time charter equivalent earnings and shipping management income were US$140.4 million as compared with the corresponding period last year of US$140.9 million. Net profit attributable to shareholders decreased to US$36.4 million from US$85.5 million in the corresponding period last year.

Turnover included US$199.3 million revenues earned from all the handysize vessels in the IHC Pool, including the managed vessels, and US$33.5 million from the handymax vessels. These were shown gross of voyage-related expenses. Approximately 97.2% of turnover was generated from the employment of the Group's owned and chartered fleet and the remaining 2.8% was generated from the provision of commercial and technical management services for third party vessels and revenues from marine services businesses. Voyage-related expenses related primarily to commissions, ships' bunkers, port-related costs and short term hire expenses of chartered vessels. The IHC Pool paid to other pool members freight and charter-hire net of voyage-related expenses which were calculated based on the number of pool points attributable to the vessels participated in the pool owned by the other pool members. The total amount of voyage-related expenses, including the change in fair value of bunker swap and forward contracts, and the amounts payable to other pool members deducted from turnover was US$99.0 million (2005: US$88.0 million), resulting in time charter equivalent earnings for the Group of US$140.4 million (2005: US$140.9 million).

The average daily charter rates on a time charter equivalent basis and the number of revenue days from the fleet of owned, finance leased and chartered vessels in the first half of the year, as compared to prior period, can be analysed as follows:

		Six months ended 30 June	
		2006	2005
Handysize			
Daily charter rates		**US$14,400**	US$18,600
Revenue days	Owned	**2,580**	5,500
	Finance leased	**3,060**	–
	Chartered (operating lease)	**1,930**	1,250
Total		**7,570**	6,750
Handymax			
Daily charter rates		**US$14,150**	US$8,460
Revenue days	Owned	**–**	200
	Chartered (operating lease)	**1,680**	150
Total		**1,680**	350

DIRECT COSTS, OTHER OPERATING INCOME AND OTHER OPERATING EXPENSES

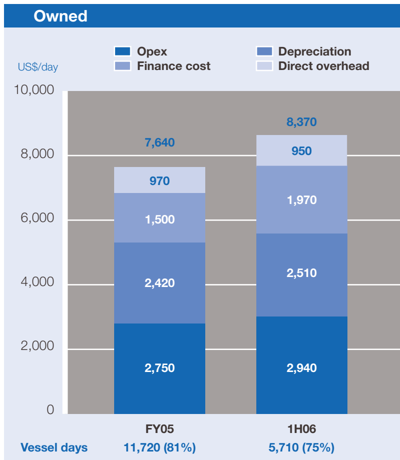
Direct costs in the first half of 2006 were US$84.9 million (2005: US$53.4 million). Direct costs included charter-hire expenses of vessels held under operating leases, vessel operating costs for owned and finance leased vessels, cost of marine products sold, cost of marine services, and an overhead allocation of US$10.7 million (2005: US$10.1 million) representing shore-based costs of staff, office and related expenses directly attributable to both the employment and operation of the owned and chartered fleet and the generation of marine services businesses.

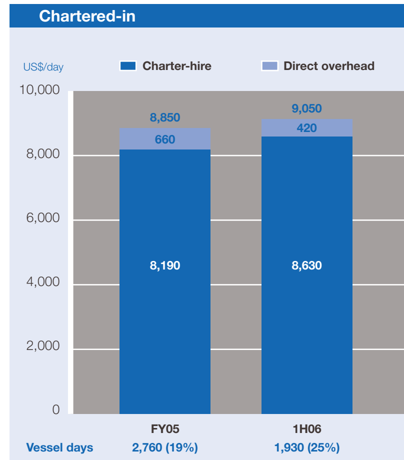
Vessel charter-hire expenses increased to US$42.2 million in the first half of 2006 from US$11.9 million in the first half of 2005. This reflected the increase in the average number of vessels chartered under operating leases, the increase in the average daily charter rate of handysize vessels and the higher average daily charter rate for our handymax vessels compared to that of our short and long term handysize vessels.

Depreciation expenses decreased to US$14.3 million in the first half of 2006 from US$15.4 million in the first half of 2005 primarily due to differences in the drydocking schedules between the two periods.

Vessel operating costs increased to US$16.8 million in the first half of 2006 from US$14.2 million in the first half of 2005. This was due to the increase in crew expenses, insurance, repairs and maintenance and other miscellaneous running costs.

Handysize vessel operating costs as a blend of owned and chartered vessel costs amounted to US$8,540 per day in the first half of 2006 (2005 full year: US$7,870 per day). This can be broken down between owned and chartered costs as follows:





Handymax vessel operating costs in the first half of 2006 consisted of charter-hire paid for 1,680 vessel days at US$15,130 per day.

The difference between the number of revenue days and vessel days for the owned fleet in the period was represented by technical off-hire. There was no technical off-hire for the vessels time chartered into the fleet. The total fleet of owned vessels incurred approximately 70 technical off-hire days in the first half of 2006 representing 1.3 per 100 operating days, compared to 270 technical off-hire days in the first half of 2005 representing 4.7 per 100 operating days.

Other operating income of US$6.5 million represented US$4.7 million (2005: Nil) of movements in the fair value of receipts in relation to forward freight agreements, and US$1.8 million (2005: US$0.1 million) of interest income.

Other operating expenses of US$8.8 million (2005: Nil) represented movements in the fair value of payments in relation to forward freight agreements.

GENERAL AND ADMINISTRATIVE EXPENSES

The Group's total administrative expenses of US$16.9 million (2005: US$16.5 million) consisted of shore-based overhead costs of US$10.7 million (2005: US$10.1 million) included as part of direct expenses, and general and administrative expenses of US$6.2 million (2005: US$6.4 million). The change in composition was due to the increase in the number of staff directly involved in the management of the expanded fleet. General and administrative expenses included Directors, senior management, key staff and administrative staff costs of US$4.0 million (2005: US$4.7 million) and other administrative and office expenses of US$2.2 million (2005: US$1.7 million).

SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES

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

FINANCING

Finance costs of US$11.6 million (2005: US$7.8 million) included interest payments of US$0.5 million (2005: US$7.3 million) in relation to bank borrowings used to finance the Group's owned vessels and finance charges of US$10.6 million (2005: Nil).

Interest payments on bank borrowings

The decrease in interest payments on bank borrowings in the first half of 2006 was due to the decrease in the average bank borrowings outstanding to US$16.6 million in the first half of 2006 from US$348.6 million in the first half of 2005. The bank borrowings' interest cost amounted to approximately US$190 per day for the owned vessels. Average interest rates on bank borrowings were approximately 5.9% in the first half of 2006 (2005: 4.2%).

Finance charges

Finance charges of US$10.6 million (2005: Nil) represented interest payments on finance lease liabilities used to finance the Group's finance leased vessels. During the second half of 2005, the Group sold and bareboat leased back 17 of its vessels for periods of 10 to 12 years. Finance lease accounting has been adopted for these transactions, which means that the balance sheet shows the net carrying value of these vessels, and the current and long term liabilities in aggregate include finance lease liabilities of US$309.5 million. The fixed equal quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities in the balance sheet and finance charges in the income statement. The finance charges amounted to approximately US$3,450 per day in the first half of 2006. This daily charge will reduce each year as the finance lease liabilities in the balance sheet are repaid. Finance charges can be expressed as interest rates, fixed for the period of the leases. The average interest rate on finance leases was approximately 6.7% in the first half of 2006 (2005: Nil).

CASH FLOW

US$ million	Six months ended 30 June 2006	2005
Net cash from operating activities	**57.3**	90.4
– Purchase of vessels	**(97.5)**	(77.6)
– Sale of vessels	**–**	103.1
– Others	**6.1**	(2.3)
Net cash (used in)/from investing activities	**(91.4)**	23.2
– Net drawdown/(repayment) of bank loans	**71.0**	(76.2)
– Repayment of finance lease liabilities	**(7.4)**	–
– Payment of interest and other finance charges	**(11.2)**	(8.2)
– Payment of dividends	**(58.1)**	(39.0)
– Others	**0.2**	(3.3)
Net cash used in financing activities	**(5.5)**	(126.7)
Bank balances and cash at 30 June	**42.6**	28.6

At 30 June 2006, the Group had net working capital of US$32.4 million excluding long term finance lease liabilities and bank loans repayable within one year of US$15.4 million and US$9.6 million respectively. The primary sources of liquidity comprised bank balances and cash of US$42.6 million and unutilised committed and secured bank borrowing facilities of US$42.6 million. The Group's primary liquidity needs are to fund general working capital requirements (including lease commitments), fleet expansion and other capital expenditure.

INDEBTEDNESS

The indebtedness of the Group comprised finance lease liabilities of US$309.5 million and bank borrowings of US$70.8 million, of which US$15.4 million and US$9.6 million respectively represented the current portion that were repayable within one year from the balance sheet date. Finance lease liabilities decreased to US$309.5 million at 30 June 2006 from US$316.9 million at 31 December 2005 as a result of repayments during the period.

Bank borrowings increased to US$70.8 million at 30 June 2006 from nil at 31 December 2005. The increase was the result of re-drawn existing pre-paid bank facilities to finance the delivery and acquisition of vessels. At 30 June 2006, all outstanding finance lease liabilities will expire between 2015 and 2017 and all outstanding secured bank borrowings will expire in 2012.

At 30 June 2006, the Group's bank borrowings were secured by mortgages over 11 vessels with a total net book value of US$146.3 million, assignment of earnings and insurances in respect of the vessels and charges over the shares of certain vessel-owning subsidiaries.

At 30 June 2006, the Group had unutilised committed bank borrowing facilities of US$42.6 million. These facilities are available to finance the Group's newbuilding commitments and other vessel acquisitions to which the Group may be committed in the future.

At 30 June 2006, the Group's gearing ratio expressed as borrowings and finance lease liabilities, net of cash, as a percentage of property, plant and equipment (based on net book values) and vessel finance lease receivables was 57.0% (31 December 2005: 46.2%).

FINANCIAL INSTRUMENTS

The Group is exposed to fluctuations in interest rates, bunker prices, freight rates and foreign currencies in relation to contracts designated in foreign currencies. The Group manages these exposures by way of interest rate swap contracts, bunker swap and forward contracts, forward freight agreements and forward foreign exchange contracts respectively which are detailed in Note 5 and Note 11 to the unaudited condensed consolidated interim financial statements in this Interim Report. Hedge accounting has not been adopted for the aforesaid contracts unless they satisfy the conditions set out in HKAS 39 "Financial Instruments: Recognition and Measurement". The forward foreign exchange contracts and one of the interest rate swap contracts qualified for hedge accounting. Accordingly, the change in the fair value was recognised directly in other reserves, under hedging reserve. Gains or losses arising from a change in the fair value of the other contracts were recognised in the income statement under i) finance costs for interest rate swap contracts, ii) bunkers, port disbursements and other charges for bunker swap and

forward contracts and iii) other operating income and other operating expenses for forward freight agreements. The adoption of HKAS 39 has the effect of shifting the estimated results of these contracts into the current period. The cashflows of these contracts remain in the future reporting period.

In the first half of 2006, the Group recognised net realised gains of US$2.0 million and net unrealised losses of US$2.9 million in the income statement. These are analysed as follows:

			Six months ended 30 June	
US$ million	Realised	Unrealised	**2006**	2005
Gains				
– Interest rate swap contracts	0.2	0.3	**0.5**	0.4
– Bunker swap and forward contracts	3.8	1.4	**5.2**	6.6
– Forward freight agreements	0.6	4.0	**4.6**	–
	4.6	5.7	**10.3**	7.0
Losses				
– Interest rate swap contracts	(0.1)	(0.7)	**(0.8)**	(0.7)
– Bunker swap and forward contracts	(1.3)	(0.4)	**(1.7)**	(0.1)
– Forward freight agreements	(1.2)	(7.5)	**(8.7)**	–
	(2.6)	(8.6)	**(11.2)**	(0.8)
Net				
– Interest rate swap contracts	0.1	(0.4)	**(0.3)**	(0.3)
– Bunker swap and forward contracts	2.5	1.0	**3.5**	6.5
– Forward freight agreements	(0.6)	(3.5)	**(4.1)**	–
	2.0	(2.9)	**(0.9)**	6.2

LEASE COMMITMENTS

Lease commitments included vessels chartered by the Group directly and by the IHC Pool. Charter in commitments under operating leases as at 30 June 2006 stood at US$280.2 million as compared with US$223.1 million at 31 December 2005. The increase was mainly due to an average increase of eight chartered vessels during the period. Of these commitments, US$206.3 million related to handysize vessels and US$73.9 million related to handymax vessels.

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

	Handysize Operating leases		Handysize Finance leases		Handymax Operating leases	
Year	Average daily rates *(in US$)*	Total number of vessel days	Average daily rates *(in US$)*	Total number of vessel days	Average daily rates *(in US$)*	Total number of vessel days
2006	9,800	2,210	5,800	3,210	17,100	2,260
2007	9,600	4,580	5,800	6,210	13,900	1,560
2008	9,200	4,410	5,800	6,220	9,800	850
2009	9,000	3,240	5,800	6,210	8,500	620
2010	8,900	2,680	5,800	6,210	8,500	10
2011	8,800	1,820	5,800	6,210	–	–
2012	8,800	1,330	5,800	6,220	–	–
2013	8,800	790	5,800	6,210	–	–
2014	8,400	370	5,800	6,210	–	–
2015	8,400	290	5,800	5,410	–	–
2016	–	–	5,900	1,830	–	–
2017	–	–	6,000	1,520	–	–

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

Earliest year in which options may be exercised	Vessel type	Number of vessels: Finance leases	Number of vessels: Operating leases	Average age of such vessels	Average option exercise price *(in US$ million)*
2006	Handysize	17	–	5	18.9
2007	Handysize	–	2	3	15.8
2008	Handysize	–	4	6	21.1
2009	Handysize	–	3	3	23.4
	Handymax	–	1	5	17.7
2010	Handysize	–	1	3	22.5
	Handymax	–	1	5	17.7

CAPITAL EXPENDITURE

In the first half of 2006, capital expenditure, mainly comprised vessel acquisitions and instalments on newbuildings, amounted to US$97.5 million. This included capitalised expenditure on drydocking of US$0.9 million.

At 30 June 2006, the Group had property, plant and equipment of US$590.2 million, of which US$541.9 million related to 34 delivered vessels. In addition, the Group had non-cancellable commitments for the construction of nine handysize vessels, three second hand handysize vessels and two second hand handymax vessels for delivery to the Group between August 2006 and September 2009, with aggregate amount paid of US$45.4 million and aggregate amount unpaid of approximately US$283.2 million. Finance for such vessel commitments will come from cash generated from the Group's operations, existing unutilised bank borrowing facilities and additional long term borrowings to be arranged, as required.

DIRECTORS' OPINION ON THE WORKING CAPITAL AVAILABLE TO THE GROUP

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

STAFF

At 30 June 2006, the Group employed a total of 232 full time shore-based staff in offices in Hong Kong, Shanghai, Beijing, Dalian, Tokyo, Seoul, Singapore, Mumbai, Karachi, Dubai, Fujairah, London, Bad Essen, Houston, Vancouver and Melbourne.

The Group incurred total staff costs of approximately US$12.7 million in the first half of 2006, representing 5.3% of the Group's turnover for the period.

Remuneration of the Group's employees includes basic salaries, bonuses and long term incentives. Employees are remunerated on a fixed salary basis and are eligible for a discretionary bonus (based on both the Group's and individual's performance for the year).

The Group's principal retirement benefit scheme is the Mandatory Provident Fund Scheme (the "MPF Scheme") provided under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those staff employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme under which the employer and its employees are each required to make contributions to the scheme of 5% to 10% of the employees' relevant income, with the employees' mandatory contributions subject to a cap of 5% of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred. When employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The Company's Long Term Incentive Scheme allows the Company to award eligible participants share options, restricted shares and restricted units.

Details of share options and restricted share awards granted under the Long Term Incentive Scheme are set out in the Other Information section in this Interim Report.

Unaudited Condensed Consolidated Balance Sheet

	Note	30 June 2006 US$'000	31 December 2005 US$'000
Non-current assets			
Property, plant and equipment		**590,189**	504,309
Goodwill		**25,256**	25,256
Interests in jointly controlled entities		**9,976**	8,138
Derivative assets	5	**1,570**	3,382
Trade and other receivables	6	**12,658**	13,333
Restricted bank deposits		**–**	1,200
		639,649	555,618
Current assets			
Available-for-sale financial assets		**–**	200
Inventories		**14,694**	9,138
Derivative assets	5	**8,158**	1,607
Trade and other receivables	6	**27,960**	25,043
Bank balances and cash			
– pledged/restricted		**130**	430
– unpledged		**42,462**	82,081
		93,404	118,499
Current liabilities			
Derivative liabilities	5	**6,684**	180
Trade and other payables	7	**52,604**	44,567
Current portion of long term borrowings	8	**25,077**	14,912
Taxation payable		**1,742**	1,851
		86,107	61,510
Net current assets		**7,297**	56,989
Total assets less current liabilities		**646,946**	612,607
Non-current liabilities			
Derivative liabilities	5	**2,110**	1,360
Long term borrowings	8	**355,249**	301,973
		357,359	303,333
Net assets		**289,587**	309,274
Equity			
Share capital	9	**128,780**	128,184
Retained profits		**104,584**	126,308
Other reserves		**56,223**	54,782
Total equity		**289,587**	309,274

Unaudited Condensed Consolidated Income Statement

	Note	Six months ended 30 June 2006 US$'000	(restated) 2005 US$'000
Turnover	3	**239,440**	228,918
Bunkers, port disbursements and amounts payable to other pool members	3	**(99,043)**	(88,003)
Time charter equivalent earnings	3	**140,397**	140,915
Direct costs	10	**(84,874)**	(53,399)
General and administrative expenses		**(6,241)**	(6,443)
Other operating income		**6,518**	107
Other operating expenses		**(8,757)**	–
Gain on disposal of property, plant and equipment		**–**	12,221
Operating profit	11	**47,043**	93,401
Finance costs	12	**(11,625)**	(7,793)
Share of profits less losses of jointly controlled entities		**1,463**	415
Profit before taxation		**36,881**	86,023
Taxation	13	**(496)**	(520)
Profit attributable to shareholders		**36,385**	85,503
Dividends	14	**91,339**	75,472
Basic earnings per share	15(a)	**US 2.83 cents**	US 6.75 cents
Diluted earnings per share	15(b)	**US 2.81 cents**	US 6.66 cents

Unaudited Condensed Consolidated Statement of Changes in Equity

	Share capital US$'000	Share premium US$'000	Merger reserve US$'000	Staff benefits reserve US$'000	Hedging reserve US$'000	Exchange reserve US$'000	Retained profits US$'000	Total US$'000
Balance at 1 January 2005	126,701	105,794	(56,606)	1,660	–	54	55,605	233,208
Currency translation differences	–	–	–	–	–	(58)	–	(58)
Net loss recognised directly in equity	–	–	–	–	–	(58)	–	(58)
Share-based compensation	–	–	–	1,577	–	–	–	1,577
Profit attributable to shareholders	–	–	–	–	–	–	85,503	85,503
Shares purchased by trustee of the LTIS *(Note 9)*	(2,252)	–	–	–	–	–	–	(2,252)
Shares transferred to employees upon granting of restricted share awards under the LTIS *(Note 9)*	2,162	–	–	(2,162)	–	–	–	–
Dividends paid *(Note 14)*	–	–	–	–	–	–	(25,990)	(25,990)
Balance at 30 June 2005	126,611	105,794	(56,606)	1,075	–	(4)	115,118	291,988
Balance at 1 January 2006	128,184	110,953	(56,606)	1,797	(1,360)	(2)	126,308	309,274
Currency translation differences	–	–	–	–	–	38	–	38
Fair value gains of cash flow hedges	–	–	–	–	415	–	–	415
Net income recognised directly in equity	–	–	–	–	415	38	–	453
Share-based compensation	–	–	–	1,165	–	–	–	1,165
Profit attributable to shareholders	–	–	–	–	–	–	36,385	36,385
Shares issued upon exercise of share options under the LTIS *(Note 9)*	508	1,674	–	(546)	–	–	–	1,636
Shares purchased by trustee of the LTIS *(Note 9)*	(1,217)	–	–	–	–	–	–	(1,217)
Shares transferred to employees upon granting of restricted share awards under the LTIS *(Note 9)*	1,365	–	–	(1,365)	–	–	–	–
Shares transferred back to trustee upon lapse of restricted share awards under the LTIS *(Note 9)*	(60)	–	–	60	–	–	–	–
Dividends paid *(Note 14)*	–	–	–	–	–	–	(58,109)	(58,109)
Balance at 30 June 2006	128,780	112,627	(56,606)	1,111	(945)	36	104,584	289,587

Unaudited Condensed Consolidated Cash Flow Statement

	Six months ended 30 June	
	2006	2005
	US$'000	*US$'000*
Net cash from operating activities	**57,286**	90,416
Net cash (used in)/generated from investing activities	**(91,399)**	23,196
Net cash used in financing activities	**(5,506)**	(126,680)
Net decrease in cash and cash equivalents	**(39,619)**	(13,068)
Cash and cash equivalents at 1 January	**82,081**	41,651
Cash and cash equivalents at 30 June	**42,462**	28,583

Notes to the Unaudited Condensed Consolidated Interim 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 unaudited condensed consolidated interim financial statements were approved for issue on 22 August 2006.

2 BASIS OF PREPARATION

These unaudited condensed consolidated interim financial statements are prepared in accordance with Hong Kong Accounting Standard ("HKAS") No. 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"). These unaudited condensed consolidated interim financial statements should be read in conjunction with the annual financial statements for the year ended 31 December 2005.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2005. Certain new standards, amendments and interpretations to existing standards (collectively "New Standards") have been published by the HKICPA that are effective for accounting periods beginning on or after 1 January 2006. The Group has assessed the impact of these New Standards and concluded that the adoption of these New Standards will not have a material impact on the Group's financial statements.

3 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 six months ended 30 June 2006 was as follows:

	Six months ended 30 June	
		(restated)
	2006	2005
	US$'000	*US$'000*
Turnover		
Freight and charter-hire	**232,793**	222,355
Ship management income	**6,647**	6,563
	239,440	228,918
Bunkers, port disbursements and other charges	**(88,544)**	(66,907)
Amounts payable to other pool members *(Note)*	**(10,499)**	(21,096)
Time charter equivalent earnings	**140,397**	140,915

Note: Amounts payable to other pool members relate to freight and charter-hire, net of bunkers, port disbursements and other charges of US$7.8 million (2005: US$10.9 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.

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.

3 TURNOVER AND SEGMENT INFORMATION (continued)

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.

4 CAPITAL EXPENDITURE AND DISPOSAL

During the six months ended 30 June 2006, capital expenditure on vessel additions was US$97.5 million (2005: US$77.6 million) and on other property, plant and equipment was US$1.1 million (2005: US$2.1 million). No vessel and newbuildings were disposed of during the period, compared with the same period in 2005 when vessels and newbuildings with a net book value of US$92.1 million were sold, resulting in a net profit of US$12.2 million.

5 DERIVATIVE ASSETS AND LIABILITIES

	30 June 2006 US$'000	31 December 2005 US$'000
Derivative assets		
Derivative assets that do not qualify for hedge accounting:		
Interest-rate swap contracts *(Note (a)(i))*	**340**	709
Bunker swap and forward contracts *(Note b)*	**5,356**	4,280
Forward freight agreements *(Note c)*	**3,851**	–
Cash flow hedge:		
Interest-rate swap contracts *(Note (a)(ii))*	**181**	–
Total	**9,728**	4,989
Less: non-current portion:		
Bunker swap and forward contracts *(Note b)*	**(1,202)**	(3,382)
Forward freight agreements *(Note c)*	**(368)**	–
	(1,570)	(3,382)
Current portion	**8,158**	1,607
Derivative liabilities		
Derivative liabilities that do not qualify for hedge accounting:		
Bunker swap and forward contracts *(Note b)*	**172**	–
Forward freight agreements *(Note c)*	**7,496**	180
Cash flow hedge:		
Forward foreign exchange contracts *(Note d)*	**1,126**	1,360
Total	**8,794**	1,540
Less: non-current portion:		
Forward freight agreements *(Note c)*	**(1,113)**	–
Forward foreign exchange contracts *(Note d)*	**(997)**	(1,360)
	(2,110)	(1,360)
Current portion	**6,684**	180

5 DERIVATIVE ASSETS AND LIABILITIES (continued)

(a) Interest-rate swap contracts

At 30 June 2006, the Group had agreements with banks to hedge against six-month floating 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$40 million with the Floating Rate swapped to a fixed rate of approximately 5.0% per annum. This fixed rate reverts to the Floating Rate minus approximately 1.0% per annum if the Floating Rate exceeds 6.0%. This agreement expires in January 2017.

ii) Effective from 2 January 2007, a notional amount of approximately US$20 million with the Floating Rate swapped to 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 was recognised directly in other reserves, under hedging reserve.

(b) Bunker swap and forward contracts

At 30 June 2006, the Group had outstanding bunker swap and forward contracts to buy approximately 69,400 (31 December 2005: 82,900) metric tonnes ("mt") of bunkers, and which expire through December 2007. The commitments were entered into to hedge against fluctuations in bunker prices in connection with the Group's long term cargo contract commitments.

(c) Forward freight agreements

At 30 June 2006, the Group had outstanding forward freight agreements to buy approximately 1,000 (31 December 2005: 90) days of Baltic Supramax Index, and which expire through December 2007. The Group also had outstanding forward freight agreements to sell approximately 1,000 (31 December 2005: Nil) days of Baltic Supramax Index, and which expire through December 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.

5 DERIVATIVE ASSETS AND LIABILITIES (continued)

(d) Forward foreign exchange contracts

At 30 June 2006, the Group had outstanding forward foreign exchange contracts with a bank to buy approximately Yen2.5 billion and simultaneously to sell US$24.8 million for the acquisition of a vessel denominated in Japanese Yen. These contracts expire through December 2007. These instruments qualify for hedge accounting. The change in the fair value was recognised directly in other reserves, under hedging reserve.

6 TRADE AND OTHER RECEIVABLES

	30 June 2006 US$'000	31 December 2005 US$'000
Non-current		
Finance lease receivables – gross	**18,647**	20,063
Less: unearned finance lease income	**(5,989)**	(6,730)
Finance lease receivables – net	**12,658**	13,333
Current		
Finance lease receivables – gross	**3,083**	3,444
Less: unearned finance lease income	**(1,539)**	(1,635)
Finance lease receivables – net	**1,544**	1,809
Trade receivables – gross	**11,524**	10,531
Less: provision for impairment	**(583)**	(841)
Trade receivables – net	**10,941**	9,690
Other receivables	**6,812**	5,028
Prepayments	**8,181**	4,909
Amounts due from jointly controlled entities	**482**	3,607
	27,960	25,043

6 TRADE AND OTHER RECEIVABLES (continued)

At 30 June 2006, the ageing analysis of trade receivables is as follows:

	30 June 2006 *US$'000*	31 December 2005 *US$'000*
Less than 30 days	**9,316**	7,636
31 – 60 days	**1,071**	603
61 – 90 days	**98**	593
Over 90 days	**456**	858
	10,941	9,690

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 port disbursements and other voyage-related charges.

7 TRADE AND OTHER PAYABLES

	30 June 2006 *US$'000*	31 December 2005 *US$'000*
Trade payables	**9,314**	2,869
Accruals and other payables	**27,042**	31,780
Receipts in advance	**16,248**	9,918
	52,604	44,567

7 TRADE AND OTHER PAYABLES (continued)

At 30 June 2006, the ageing analysis of trade payables is as follows:

	30 June 2006 US$'000	31 December 2005 US$'000
Less than 30 days	**7,215**	1,437
31 – 60 days	**318**	248
61 – 90 days	**490**	326
Over 90 days	**1,291**	858
	9,314	2,869

8 LONG TERM BORROWINGS

	30 June 2006 US$'000	31 December 2005 US$'000
Non-current		
Finance lease liabilities *(Note a)*	**294,041**	301,973
Secured bank loans *(Note b)*	**61,208**	–
	355,249	301,973
Current		
Finance lease liabilities *(Note a)*	**15,442**	14,912
Secured bank loans *(Note b)*	**9,635**	–
	25,077	14,912
Total long term borrowings	**380,326**	316,885

8 LONG TERM BORROWINGS (continued)

(a) The maturities of the Group's finance lease liabilities are as follows:

	30 June 2006 **US$'000**	31 December 2005 *US$'000*
Not later than one year	**15,442**	14,912
Later than one year but not later than five years	**73,490**	71,074
Later than five years	**220,551**	230,899
	309,483	316,885

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

(i) Mortgages over certain owned vessels of net book value totalling US$146,299,000 (2005: Nil);

(ii) Assignment of earnings, insurances and requisition compensations in respect of the vessels; and

(iii) Charges over the shares of certain vessel-owning subsidiaries.

The maturities of the Group's bank loans are as follows:

	30 June 2006 **US$'000**	31 December 2005 *US$'000*
Not later than one year	**9,635**	–
Later than one year but not later than two years	**5,644**	–
Later than two years but not later than five years	**17,064**	–
Later than five years	**38,500**	–
	70,843	–

9 SHARE CAPITAL

	Number of shares of US$0.1 each	30 June 2006 US$'000	31 December 2005 US$'000
Authorised	**3,600,000,000**	**360,000**	360,000
Issued and fully paid			
At 1 January	**1,282,540,608**	**128,184**	126,701
Shares issued upon exercise of share options under the LTIS *(Note a)*	**5,075,000**	**508**	1,573
Shares purchased by trustee of the LTIS *(Note b)*	**(2,465,000)**	**(1,217)**	(2,252)
Shares transferred to employees upon granting of restricted share awards under the LTIS *(Note b)*	**2,795,408**	**1,365**	2,162
Shares transferred back to trustee upon lapse of restricted share awards under the LTIS *(Note b)*	**(133,333)**	**(60)**	–
At 30 June/31 December	**1,287,812,683**	**128,780**	128,184

9 SHARE CAPITAL (continued)

(a) Share options

Share options under the Company's Long Term Incentive Scheme ("LTIS") were granted to Directors, senior management and certain employees.

Movements in the number of share options outstanding during the six months ended 30 June 2006 and their related weighted average exercise prices are as follows:

	2006		2005	
	Average exercise price in HK$ per share	**Number of options '000**	Average exercise price in HK$ per share	Number of options '000
At 1 January	**2.654**	**44,770**	2.500	55,500
Granted	**–**	**–**	3.875	5,000
Exercised	**2.500**	**(5,075)**	2.500	(15,730)
Cancelled[1]	**3.875**	**(5,000)**	–	–
At 30 June/ 31 December	**2.500**	**34,695**	2.654	44,770

[1] Please refer to the Other Information section in this Interim Report for details.

The related weighted average share price at the time of exercise was HK$3.58 (2005: HK$3.87) per share.

9 SHARE CAPITAL (continued)

(b) Restricted share awards

Restricted share awards under the LTIS were granted to Directors, senior management and certain employees. During the six months ended 30 June 2006, the trustee of the LTIS (which under Hong Kong Financial Reporting Standards is regarded as a special purpose entity of the Company) acquired 2,465,000 shares of the Company on the Stock Exchange at a total cost of US$1,217,000. During the period, 133,333 shares formerly transferred to an employee lapsed and 2,795,408 restricted share awards were granted to certain employees. The shares granted were then transferred to the employees with the remaining 2,926 shares held by the trustee at 30 June 2006.

Movements in the number of unvested restricted share awards during the six months ended 30 June 2006 are as follows:

	2006	2005
	'000	*'000*
At 1 January	**4,311**	–
Granted	**2,795**	4,800
Vested	**(871)**	(489)
Lapsed[1]	**(133)**	–
At 30 June/31 December	**6,102**	4,311

1 Please refer to the Other Information section in this Interim Report for details.

9 SHARE CAPITAL (continued)

(b) Restricted share awards (continued)

The fair value of the restricted share awards granted during the six months ended 30 June 2006 was determined with reference to the market price of those shares at the grant date.

10 DIRECT COSTS

	Six months ended 30 June	
	2006	2005
	US$'000	*US$'000*
Charter-hire expenses on vessels	**42,182**	11,877
Vessel operating costs	**16,787**	14,176
Depreciation on vessels	**14,309**	15,351
Shore-based overheads	**10,685**	10,111
Cost of marine products sold and consulting services	**911**	1,884
	84,874	53,399

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

11 OPERATING PROFIT

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

	Six months ended 30 June	
	2006	2005
	US$'000	*US$'000*
Depreciation for		
– owned vessels	**7,021**	15,351
– leased vessels	**7,288**	–
– other owned property, plant and equipment	**626**	324
Bunkers consumed	**38,514**	20,859
Lubricating oil consumed	**1,244**	1,166
Employee benefit expenses including directors' emoluments	**12,712**	11,875
Operating lease expenses on		
– vessels	**42,182**	11,877
– land and buildings	**793**	825
Interest income[2]	**(1,868)**	(107)
Gains on derivative instruments not qualifying as hedges		
– bunker swap and forward contracts[1]	**(5,157)**	(6,524)
– forward freight agreements[2]	**(4,650)**	–
Losses on derivative instruments not qualifying as hedges		
– bunker swap and forward contracts[1]	**1,771**	58
– forward freight agreements[3]	**8,757**	–

[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"

12 FINANCE COSTS

	Six months ended 30 June	
		(restated)
	2006	2005
	US$'000	*US$'000*
Interest on bank loans	**501**	7,344
Interest on finance leases	**10,626**	–
Other finance charges	**247**	193
Fair value gains on interest rate swap contracts	**(549)**	(427)
Fair value losses on interest rate swap contracts	**800**	683
	11,625	7,793

13 TAXATION

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

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

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

	Six months ended 30 June	
	2006	2005
	US$'000	*US$'000*
Current taxation		
Hong Kong profits tax	**319**	425
Overseas tax	**177**	95
	496	520

14 DIVIDENDS

	Six months ended 30 June	
	2006	2005
	US$'000	*US$'000*
Dividends attributable to the previous financial year, approved and paid during the interim period:		
Final dividend in respect of the year ended 31 December 2005 of HK 35 cents or US 4.5 cents per share (in respect of the year ended 31 December 2004: HK 16 cents or US 2.0 cents per share)	**58,109**	25,990
Dividends attributable to the interim period, declared and paid after the interim period:		
HK 20 cents or US 2.6 cents per share (2005: HK 30 cents or US 3.9 cents per share) *(Note)*	**33,230**	49,482
	91,339	75,472

Note: The interim dividend was declared on 22 August 2006 and was not reflected as a dividend payable in these unaudited condensed consolidated interim financial statements, but will be reflected as an appropriation of retained profits for the year ending 31 December 2006.

15 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 six months ended 30 June 2006, excluding the shares held by the trustee of the Company's LTIS (Note 9).

	Six months ended 30 June	
	2006	2005
Profit attributable to shareholders (US Dollars in thousands)	**36,385**	85,503
Weighted average number of ordinary shares in issue (in thousands)	**1,285,107**	1,266,600
Basic earnings per share	**US 2.83 cents**	US 6.75 cents
Equivalent to	**HK 21.95 cents**	HK 52.30 cents

15 EARNINGS PER SHARE (continued)

(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 shares in issue during the six months ended 30 June 2006 after adjusting for the number of potential dilutive ordinary shares to be issued upon the exercise of share options granted under the Company's LTIS but excluding the shares held by the trustee of the Company's LTIS (Note 9).

	Six months ended 30 June	
	2006	2005
Profit attributable to shareholders (US Dollars in thousands)	**36,385**	85,503
Weighted average number of ordinary shares in issue (in thousands)	**1,285,107**	1,266,600
Adjustments for share options (in thousands)	**10,600**	17,000
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,295,707**	1,283,600
Diluted earnings per share	**US 2.81 cents**	US 6.66 cents
Equivalent to	**HK 21.77 cents**	HK 51.61 cents

16 COMMITMENTS

(a) Capital commitments

	30 June 2006 US$'000	31 December 2005 US$'000
Contracted but not provided for in relation to		
– vessel acquisitions and shipbuilding contracts	283,149	158,878
– investment in a jointly controlled entity	–	1,792
– land and buildings	–	907
	283,149	161,577

(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 30 June 2006			
Not later than one year	986	102,300	103,286
Later than one year but not later than five years	685	146,162	146,847
Later than five years	–	31,759	31,759
	1,671	280,221	281,892

16 COMMITMENTS (continued)

(b) Commitments under operating leases (continued)

(i) The Group as the lessee (continued)

	Land and buildings *US$'000*	Vessels *US$'000*	Total *US$'000*
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

(ii) The Group as the lessor

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

	30 June 2006 ***US$'000***	31 December 2005 *US$'000*
Not later than one year	**33,778**	34,196
Later than one year but not later than five years	**17,611**	26,208
	51,389	60,404

17 SIGNIFICANT RELATED PARTY TRANSACTIONS

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

(a) Purchases of services

	Six months ended 30 June	
	2006	2005
	US$'000	*US$'000*
Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") *(Note i)*	**275**	247
Amounts payable to China Line Shipping Limited *(Note ii)*	**2,523**	3,496

(i) The Group entered into certain insurance contracts through Sun Hing, a related company in which 35% of its shareholding was held indirectly by Lee Kwok Yin, Simon, a non-executive 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.

(b) Sales of services

	Six months ended 30 June	
	2006	2005
	US$'000	*US$'000*
Charter-hire income received from Asia Logistics Group Limited *(Note i)*	**–**	2,462
Charter-hire income received from Fujairah Bulk Shipping Limited *(Note ii)*	**2,388**	–

17 SIGNIFICANT RELATED PARTY TRANSACTIONS (continued)

(b) Sales of services (continued)

(i) The Group leased out certain vessels to Asia Logistics Group Limited, a jointly controlled entity, in 2005.

(ii) The Group leased out certain vessels to Fujairah Bulk Shipping Limited, a jointly controlled entity during the period.

(c) Directors and senior management compensation

	Six months ended 30 June	
	2006	2005
	US$'000	*US$'000*
Directors' fees	**127**	120
Salary and bonus	**2,496**	2,942
Retirement benefits costs	**68**	44
Share-based compensation	**677**	776
Termination benefits	**273**	–
	3,641	3,882

18 COMPARATIVES

Certain comparative figures have been reclassified to conform with the presentation adopted in the annual report for the year ended 31 December 2005 in order to achieve a fairer presentation of the Group's activities. They include turnover, bunkers, port disbursements and amounts payable to other pool members, and finance costs.

Corporate Governance

The Group is committed to maintaining and achieving the highest standards of corporate governance consistent with the needs and requirements of the business and all of its stakeholders. The Code on Corporate Governance Practices (the "Code") as promulgated by The Stock Exchange of Hong Kong Limited (the "Stock Exchange") came into effect for the reporting year commencing on 1 January 2005, save for the provisions on internal controls which came into effect for accounting periods commencing from 1 July 2005 onwards. The Company has considered the Code and has put in place corporate governance practices to meet all the code provisions and such recommended best practices that are considered relevant to the Group.

With respect to internal controls, all departments within the Group have documented their key tasks and the risks associated with those tasks and these have been reviewed, graded and tabulated in a risk register by the risk management committee. Specific details on the control process including (but not limited to) levels of authority granted to individuals, responsibility and documentary audit trails are contained in the risk register. The Group commenced the control testing process in July 2006. A full report in respect of the Group's key internal controls, including financial, operational and compliance controls and risk management functions will be set out in the Company's Corporate Governance Report as part of the Company's 2006 Annual Report.

In the first half of 2006, the Company has been fully compliant with all code provisions of the Code as contained in Appendix 14 of The Rules Governing the Listing of the Securities on the Stock Exchange (the "Listing Rules").

Details of the composition and terms of reference of the audit, remuneration, nomination and executive committees can be found on the Company's website at www.pacbasin.com.

DIRECTORS' SECURITIES TRANSACTIONS

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules (the "Model Code").

The Board confirms that, having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

SENIOR MANAGEMENT AND STAFF SECURITIES TRANSACTIONS

Senior managers and those staff who are more likely to be in possession of unpublished price sensitive information or other relevant information in relation to the Group have adopted rules based on the Model Code on 30 August 2004 (the "Dealing Rules"). These senior managers and staff have been individually notified and provided with a copy of the Dealing Rules.

SHAREHOLDERS' RIGHTS

Shareholders are encouraged to maintain direct communication with the Company. Shareholders who have any questions for the Board may write directly to the Company Secretary at the Company's Hong Kong registered office of 7th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, or they may send an email to companysecretary@pacbasin.com.

Other Information

DIRECTORS' AND CHIEF EXECUTIVE'S INTEREST AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

At 30 June 2006, the interests and short positions of each Director and the Chief Executive in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")) which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) were required to be entered in the register kept by the Company pursuant to Section 352 of the SFO, or (c) were required pursuant to the Model Code were as follows:

Name of Director	Corporate interests	Personal interests	Family interests	Trust & similar interests	Number of underlying Shares under equity derivatives (share options)	Total Share interests	Approximate percentage of issued share capital of the Company
Christopher R. Buttery	–	5,626,612	–	18,386,905 [3]	3,200,000 [1]	27,213,517	2.11%
Richard M. Hext	–	4,353,741 [2]	–	–	–	4,353,741	0.34%
Paul C. Over	–	–	–	23,535,041 [4]	3,200,000 [1]	26,735,041	2.08%
Lee Kwok Yin, Simon	–	–	–	75,620,220 [5]	–	75,620,220	5.87%
Patrick B. Paul	–	20,000	–	–	–	20,000	0.002%
Daniel R. Bradshaw	869,417 [6]	–	–	–	–	869,417	0.068%

Notes:

(1) On 14 July 2004, each of Mr. Buttery and Mr. Over were granted options to subscribe for 4,800,000 Shares pursuant to the LTIS. The subscription price is HK$2.50 per Share. In relation to each grant of 4,800,000 share options, (i) 1,600,000 share options are exercisable from 14 July 2005 to 14 July 2014, (ii) another 1,600,000 share options are exercisable from 14 July 2006 to 14 July 2014 and (iii) the remaining 1,600,000 share options are exercisable from 14 July 2007 to 14 July 2014.

Each of Mr. Buttery and Mr. Over has exercised their options to subscribe for 1,600,000 Shares in September 2005 at the price of HK$2.50 per Share.

(2) On 8 June 2005, 3,333,333 Shares in the form of restricted share awards were granted to Mr. Hext pursuant to the LTIS. In relation to the 3,333,333 restricted share awards, (i) 666,667 Shares have vested on 5 April 2006, (ii) 666,667 Shares will vest on 5 April 2007, (iii) 666,667 Shares will vest on 5 April 2008, (iv) 666,666 Shares will vest on 5 April 2009 and (v) 666,666 Shares will vest on 5 April 2010.

On 20 March 2006, the 5 million share options granted to Mr. Hext when he joined the Company as an executive Director on 5 April 2005 were cancelled and in their place he was granted 1,020,408 Shares in the form of restricted share awards, of which (i) 204,080 Shares have vested on 5 April 2006, (ii) 204,080 Shares will vest on 5 April 2007, (iii) 204,080 Shares will vest on 5 April 2008, (iv) 204,080 Shares will vest on 5 April 2009 and (v) 204,088 Shares will vest on 5 April 2010.

(3) 18,386,905 Shares are owned by Turnwell Limited. Mr. Buttery is deemed to be interested in the entire share capital of Turnwell Limited under the SFO as its shares are held by a discretionary trust set up by him and the discretionary objects of which include himself and his family members.

(4) 23,535,041 Shares are owned by Ansleigh Limited. Mr. Over is deemed to be interested in the entire share capital of Ansleigh Limited under the SFO as its shares are held by a discretionary trust set up by him and the discretionary objects of which include himself and his family members.

(5) 19,935,122 Shares, 1,059,725 Shares, 22,335,373 Shares, 14,720,500 Shares and 17,569,500 Shares are beneficially owned by Asia Distribution Limited, Firelight Investments Limited, Eagle Pacific International Limited, Wellex Investment Limited and Fortress Eagle Investment Limited respectively. These companies are controlled by discretionary trusts established by Dr. Lee, the discretionary objects of which include his family members.

(6) Mr. Bradshaw is a shareholder holding 100% and 50% of the issued share capital, respectively, in Cormorant Shipping Limited and Goldeneye Shipping Limited. He beneficially owns 353,241 Shares via Cormorant Shipping Limited and is taken to be interested in the 516,176 Shares held by Goldeneye Shipping Limited.

All the interests stated above represent long positions, no short positions were recorded in the register maintained by the Company under Section 352 of the SFO as at 30 June 2006.

Save as disclosed above, at no time during the period covered by this Interim Report was the Company, its subsidiaries, or its associated companies a party to any arrangement to enable the Directors and Chief Executive of the Company to hold any interests or short positions in the Shares or underlying Shares in, or debentures of, the Company or its associated corporation.

LONG TERM INCENTIVE SCHEME

Details of the grant of long term incentives and a summary of the movements of the outstanding incentives during the six months ended 30 June 2006 under the LTIS are as follows:

(a) Share options

			Number of share options		
	Date of grant	Exercise price per share (HK$)	Held at 1 January 2006	Exercised or cancelled[2] during the period	Held at 30 June 2006
Executive Directors					
Christopher R. Buttery	14 July 2004	2.50	3,200,000[1]	–	3,200,000
Richard M. Hext	5 April 2005	3.875	5,000,000	(5,000,000)[2]	–
Mark M. Harris	14 July 2004	2.50	3,200,000[1]	(3,200,000)[3]	–
Paul C. Over	14 July 2004	2.50	3,200,000[1]	–	3,200,000
			14,600,000	(8,200,000)	6,400,000
Senior Management	14 July 2004	2.50	6,100,000[1]	(1,100,000)	5,000,000
Key Staff	14 July 2004	2.50	6,920,000[1]	–	6,920,000
Other Employees	14 July 2004	2.50	17,150,000[1]	(775,000)	16,375,000
			44,770,000	(10,075,000)	34,695,000

Notes:

(1) The share options granted on 14 July 2004 vest over three years. One-third of the share options may be exercised one year after the date of grant, one-third two years after the date of grant and one-third three years after the date of grant. All share options will expire on 14 July 2014.

(2) On 20 March 2006, the 5 million share options granted to Mr. Hext when he joined the Company as an executive Director on 5 April 2005 were cancelled and in their place he was granted 1,020,408 Shares in the form of restricted share awards.

(3) Mr. Harris resigned on 7 April 2006. All unvested share options became fully vested and were fully exercised.

(b) Restricted share awards

	Number of restricted share awards			
	As at 1 January 2006	Granted during the period	Vested or lapsed during the period	As at 30 June 2006
Richard M. Hext	3,333,333[1]	1,020,408[4]	(870,747)	3,482,994
Senior Management	–	550,000[5]	–	550,000
Key Staff	577,776[2]	400,000[5]	–	977,776
Other Employees	399,999[3]	825,000[6]	(133,333)[3]	1,091,666
	4,311,108	2,795,408	(1,004,080)	6,102,436

Notes:

(1) Granted on 8 June 2005, of which (i) 666,667 Shares have vested on 5 April 2006, (ii) 666,667 Shares will vest on 5 April 2007, (iii) 666,667 Shares will vest on 5 April 2008, (iv) 666,666 Shares will vest on 5 April 2009 and (v) 666,666 Shares will vest on 5 April 2010.

(2) Granted on 8 June 2005, of which 288,889 Shares will vest on 30 November 2006 and 288,887 Shares will vest on 30 November 2007.

(3) Granted on 8 June 2005, of which 133,333 Shares have lapsed in January 2006 due to resignation of an employee, 133,334 Shares will vest on 30 November 2006 and 133,332 Shares will vest on 30 November 2007.

(4) Granted on 20 March 2006, of which (i) 204,080 Shares have vested on 5 April 2006, (ii) 204,080 Shares will vest on 5 April 2007, (iii) 204,080 Shares will vest on 5 April 2008, (iv) 204,080 Shares will vest on 5 April 2009 and (v) 204,088 Shares will vest on 5 April 2010.

(5) Granted on 9 March 2006 and vesting in equal amounts on 1 March 2007, 2008, 2009, 2010 and 2011.

(6) Granted on 9 March and 15 March 2006, of which 175,000 Shares will vest on 1 March 2007, and an equal amount of 162,500 Shares will vest on each of 1 March 2008, 2009, 2010 and 2011 respectively.

The closing price of the Shares of the Company immediately before the 2,795,408 restricted share awards granted on 9 March, 15 March and 20 March 2006 were HK$3.775, HK$3.80 and HK$3.825 respectively.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES OF THE COMPANY

The register of substantial shareholders maintained under Section 336 of the SFO shows that as at 30 June 2006, the following substantial shareholders' interests and short positions had been recorded. These interests are in addition to those disclosed above in respect of the Directors and Chief Executive.

Name of shareholder	Capacity/Nature of interest		Number of Shares	Approximate percentage of issued share capital
J.P. Morgan Chase & Co.[1]	Investment manager and approved lending agent	Long positions	91,041,000	7.07%
		Short positions	–	–
Lazard Asset Management LLC	Investment manager	Long positions	93,985,300	7.30%
		Short positions	–	–
Pembroke Shipping Limited	Beneficial owner	Long positions	87,055,253	6.76%
		Short positions	–	–

Note:

1. The Shares held by J.P. Morgan Chase & Co. are held in the capacities as investment manager (relating to 50,772,000 Shares) and custodian corporation/approved lending agent (relating to 40,269,000 Shares).

Save as disclosed above, as at 30 June 2006, no person, other than the directors of the Company, whose interests are set out in the section "Directors' and Chief Executive's Interest" above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

PURCHASE, SALE AND REDEMPTION OF SHARES

During the period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's shares.

INTERIM REPORT AND DISCLOSURE OF INFORMATION ON STOCK EXCHANGE'S WEBSITE

The announcement of interim results containing all the information required by paragraphs 46(1) to 46(9) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website at www.hkex.com.hk and on the Company's website at www.pacbasin.com.

This Interim Report will be circulated to shareholders by 15 September 2006. An electronic copy of the Interim Report will also be available on the Company's website at www.pacbasin.com from the date when the printed copy is despatched to shareholders.

This Interim Report has been reviewed by the Audit Committee of the Company, and by our auditors, PricewaterhouseCoopers, in accordance with the Statement of Auditing Standards 700 issued by the HKICPA.

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 29 August 2006 to 30 August 2006 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 28 August 2006.

The ex-dividend date for the interim dividend will be on 25 August 2006.

DIRECTORS

As at the date of this Interim Report, the executive Directors of the Company are Christopher R. Buttery, Richard M. Hext and Paul C. Over, the non-executive Directors of the Company are Daniel R. Bradshaw and Lee Kwok Yin, Simon, and the independent non-executive Directors of the Company are Robert C. Nicholson, Patrick B. Paul, The Earl of Cromer and David M. Turnbull.

Appendix: The Pacific Basin Fleet

Appendix: The Pacific Basin Fleet 附錄：太平洋航運船隊

As at 20 August 2006 於二零零六年八月二十日

HANDYSIZE 小靈便型乾散貨船

		dwt (mt) 載重噸（公噸）	Year of Delivery 交付年份
Owned Fleet – 22 Vessels 自有貨船－22艘			
1.	Mount Rainier	32,816	2005
2.	Mount Adams	28,442	2002
3.	Ocean Bulker (to be renamed 將易名為Willow Point) #	28,492	2001
4.	Hawke Bay	28,460	2001
5.	Tasman Sea	28,456	2001
6.	Captain Corelli	28,379	2001
7.	Kiwi Trader	31,879	2000
8.	Pacific Logger	31,877	2000
9.	Prince Rupert	28,685	2000
10.	Gold River	32,973	1999
11.	Castle Peak	28,545	1997
12.	Ocean Falls	27,827	1997
13.	Hawk Inlet	27,802	1997
14.	Flinders Island	28,587	1996
15.	Abbot Point	28,587	1996
16.	Lake Joy	28,251	1996
17.	Mount Cook	27,940	1996
18.	Oak Harbour	28,760	1995
19.	Yin Xiu	28,730	1995
20.	Patagonia	27,860	1995
21.	Amazonia	28,475	1994
22.	Ocean Logger	28,429	1994
Chartered Fleet – 29 Vessels 租賃貨船－29艘			
23.	Shimanami Star	28,445	2006
24.	Duncan Bay*	28,414	2006
25.	Port Alice*	31,871	2005
26.	Danny Boy	28,386	2005
27.	Port Pegasus*	32,774	2004
28.	Sun Ruby*	32,754	2004
29.	Cook Strait*	31,894	2004
30.	Timaru Star*	31,893	2004
31.	Great Chance	28,701	2004
32.	Port Kenny*	28,449	2004
33.	Portland Bay*	28,446	2004
34.	Cape Flattery*	28,433	2004
35.	Black Forest*	32,751	2003
36.	Mount Travers*	28,483	2002
37.	Mount Fisher*	28,473	2002
38.	Ocean Exporter*	28,461	2002
39.	Albany Sound*	28,379	2002
40.	Cape York*	28,471	2001
41.	Port Botany*	28,470	2001
42.	Cape Nelson*	28,438	2001
43.	Columbia River*	28.527	1998
44.	Cape Spencer*	28,799	1997
45.	Castle Island*	28,759	1997
46.	Cape Scott*	28,747	1997

	dwt (mt) 載重噸（公噸）	Year of Delivery 交付年份
Chartered Fleet (continued)　租賃貨船（續）		
47. Pitt Island*	28,611	1997
48. Eastern Star	28,437	1997
49. Port Pirie*	27,408	1997
50. Silver Bay*	26,516	1997
51. Enforcer	26,388	1992
Managed Fleet – 2 Vessels　代他方管理貨船－2艘		
52. Great Concord	24,159	1999
53. Great Creation	27,383	1998

HANDYSIZE NEWBUILDINGS ON ORDER　新訂造小靈便型乾散貨船

	dwt (mt) 載重噸（公噸）	Scheduled Delivery 預期交付年份
Owned Fleet – 9 Vessels　自有貨船－9艘		
54. Kanda Hull 478 (to be named 將命名為Mount Baker)	32,600	2007
55. Imabari Hull 506 (to be named 將命名為Juniper Beach)	28,100	2007
56. Kanda Hull 491 (to be named 將命名為Crescent Harbour)	32,000	2007
57. Jiangmen Hull 101	32,500	2008
58. Jiangmen Hull 102	32,500	2008
59. Jiangmen Hull 103	32,500	2008
60. Jiangmen Hull 104	32,500	2009
61. Jiangmen Hull 105	32,500	2009
62. Jiangmen Hull 106	32,500	2009
Chartered Fleet – 3 Vessels　租賃貨船－3艘		
63. Kanda Hull 479 (to be named 將命名為Union Bay*)	32,000	2006
64. Imabari Hull 507 (to be named 將命名為Cape Knox*)	28,000	2006
65. Imabari Hull 503 (to be named 將命名為Port Angeles*)	28,100	2007

HANDYMAX　大靈便型乾散貨船

	dwt (mt) 載重噸（公噸）	Year of Delivery 交付年份
Owned Fleet – 2 Vessels　自有貨船－2艘		
66. Star Victory (to be renamed 將易名為Pacific Victory) Δ	52,394	2001
67. Pacific Trader	45,578	2000
Chartered Fleet – 4 Vessels　租賃貨船－4艘		
68. Delmar	53,565	2006
69. Xiamen Sky*	53,605	2005
70. Xiamen Sea*	53,589	2004
71. Kestrel I	50,351	2004

Notes 附註：

To be delivered by the end of September 2006.
將於二零零六年九月底前交付。

Δ To be delivered by the end of October 2006.
將於二零零六年十月底前交付。

* The Group has the option but is not committed to purchase these vessels under the terms of the charter.
根據此等貨船的租賃條款，本集團有購買選擇權，但無承諾購買此等貨船。