# Pacific Basin Shipping Limited

# 太平洋航運集團有限公司*

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 2343)**

## Trading Activities Update

- Handysize fleet generates average rate of US$18,700 per day in first quarter 2005 (Q1 2004: US$16,800 per day)
- Fleet expansion drives Handysize vessel revenue days in first quarter 2005 to 3,360 days (Q1 2004: 1,530 days)
- Cover for 2005's 14,200 Handysize vessel revenue days increased to 67% at average rate of US$17,300 per day
- Programme to sell and charter back vessels at attractive levels continues, with six contracts signed in the year to date

This announcement is made pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Directors of Pacific Basin Shipping Limited ("Pacific Basin" or the "Company") hereby provide a summary update on trading activities of the Company for the first quarter of 2005.

The strong dry bulk market of last year has continued in 2005. The Baltic Dry Index ("BDI")[1] has remained above 4,500 index points for most of the year to date and similarly, the spot market for Handysize vessels has remained strong with rates in the range of US$18–21,000 per day prevailing over most of the period. These positive market conditions and rates have been supported by continued strong demand for bulk commodities in our main front haul cargo delivery destinations of Japan, China and South Korea, set against an on-going tight vessel supply position.

These market conditions, combined with our cargo cover, have allowed us to achieve an average rate for our Handysize vessels of over US$18,700 per day for the first quarter of 2005, compared to US$16,800 for the first quarter of 2004. That rate has been earned on 3,360 Handysize vessel revenue days in the first quarter of 2005, increased from 1,530 days in the first quarter of 2004 as a result of the fleet expansion that we put in place last year.

The first quarter is not the usual period for concluding new cargo contracts. Nevertheless, we successfully concluded nine new cargo contracts during the period, which have contributed to the increase in the level of our cargo cover for the balance of 2005. We have completed or covered almost 67% of the 14,200 expected Handysize vessel revenue days in the full year 2005 at an average rate of over US$17,300 per day. Whilst this rate reflects the averaging of the basic rates in all our existing cargo contracts (including for contracts which extend into 2006 and 2007), it does not include any projected levels of future spot market fixtures or the benefits to be achieved when cargoes are combined effectively to reduce ballast time.

For 2006, we have covered approximately 31% of the 14,500 expected Handysize vessel revenue days (before any further fleet expansion) at an average rate of just over US$14,000 per day. This rate reflects the longer term contracts of two and three years concluded predominantly in 2004, which tend to be at a discount to spot market fixtures and short term cargo contracts but enable us to plan our future cargo cover. Since a number of these contracts extend beyond 2006, we also have the start of a cargo base for 2007.

Following the recent expiry of our charter of the Sea Bell, the smallest vessel in our chartered fleet, and the two sale and charter-back transactions outlined below, our total delivered fleet will number 46 vessels (with an average age of five years) comprising:

| | Handysize | Handymax | Total | Handysize Newbuildings |
|---|---|---|---|---|
| Owned: | 32 | 0 | 32 | 2 |
| Chartered: | 8 | 2 | 10 | 3 |
| Managed: | 4 | 0 | 4 | 0 |
| | 44 | 2 | 46 | 5 |

Five newbuilding vessels remain on order, with two to enter the owned fleet (one scheduled to be delivered in August 2005 and one in April 2006) and three to come into the long-term chartered fleet (one in the June 2005 and two in November 2006). We also hold purchase options over six of the vessels in our current chartered-in fleet and all three of the newbuilding vessels which will be on charter to us.

An increasingly tight ship sale and purchase market has pushed vessel values to new highs. Indicated prices for Handysize vessels increased by more than 15% during the first quarter of the year, although the number of modern vessels changing hands remains very low. Present market conditions are producing strong profits and cashflows for owners who are understandably reluctant to sell, despite these higher prices, resulting in only two modern Handysize ships reported sold last month.

We still wish to add further vessels to our fleet in response to continued customer demand. The fleet expansion we achieved last year does give us the flexibility to be patient and not to have to chase the market as it moves higher and, if these conditions persist, we may elect not to make further purchases. Our willingness to forego the additional profits that such new ships would generate would be more than offset by the higher rates being achieved by the rest of our fleet in such circumstances.

We are continuing our programme of selling and chartering back vessels and have recently entered into such agreements for:

a) our Hakodate Hull 801 newbuilding (to be named "Port Alice"), which is scheduled to be delivered in June 2005 and on which we hold a repurchase option; and

b) our 2005-built Handymax "Xiamen Sky", which is scheduled to deliver to her new owners in May 2005 and on which we hold a repurchase option. Both of our Handymax vessels have now been sold with chartered-back arrangements at the same rate as we have chartered them out thereby releasing all the capital invested in them.

These bring to six the number of sale and charter-back transactions (four delivered vessels and two newbuildings) entered into so far this year. Without reducing the scale of the Company's activities (2005 Handysize revenue days remain at 14,200) and with minimal impact on profitability, these sales have reduced debt by US$50.7 million, eliminated US$34.2 million of capital commitments and released US$33.1 million of invested cash. They also eliminate technical operating risk and exposure to rising interest rates, whilst the purchase options held by the Company remove the downside risk inherent in asset ownership but preserve the long-term upside value.

Our dividend policy is to pay out by way of interim and final dividends not less than 50% of profits available for distribution in each financial year. Whilst there can be no assurance that dividends of over 50% will be paid, the board of directors will consider a number of factors in determining whether to distribute a larger payout for 2005 to return surplus cash to shareholders. These will include, but will not be limited to, the expected longevity of current market conditions and any further improvement in the market, any consequent reduction in capital expenditure, and continued strong profits and cashflows generated by the Company over the year.

The demand outlook for bulk commodities and the economic indicators in our main delivery destinations of Japan, China, Australia and South Korea remain encouraging. Shipyard orderbooks are now full into 2008 with all sectors of shipping continuing to place orders. We remain confident that there will be only modest newbuilding deliveries for the Handysize sector and that the supply picture cannot deteriorate in the short term. Until a fundamental change in supply factors becomes evident, we believe that rates will continue to be healthy and supported at a higher base than has been the case historically.

These market characteristics combined with our fleet profile, market position and levels of cargo cover at attractive rates should allow us to continue to generate healthy profits and cashflows. Accordingly, we remain optimistic about the prospects for our business for the remainder of the year.

By Order of the Board

**Richard M. Hext** — *Deputy Chairman*

**Mark M. Harris** — *Chief Executive Officer*

Hong Kong, 28 April 2005

*As at the date of this announcement, the executive directors of the Company are Christopher Richard Buttery, Richard Maurice Hext, Mark Malcolm Harris and Paul Charles Over, the non-executive directors of the Company are Lee Kwok Yin, Simon and Brian Paul Friedman, and the independent non-executive directors of the Company are Robert Charles Nicholson, Patrick Blackwell Paul and The Earl of Cromer.*

[1] The Baltic Dry Index tracks average spot freight rates across larger dry bulk carriers including Panamax and Capesize vessels. It does not include Handysize vessels and usually demonstrates greater volatility than is seen in Handysize freight rates.

* *For identification purposes only.*