



Pacific Basin Shipping Limited  
Stock Code: 2343

# Interim Report 2007



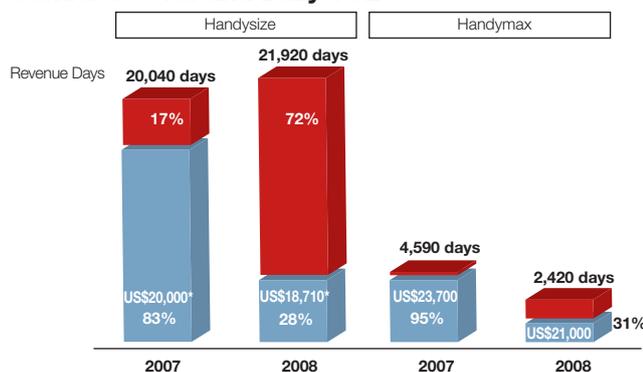
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# Results Highlights

- **Group profits for the period were US\$162.9 million** (2006: US\$36.4 million) as a result of increased revenue days and strong dry bulk market conditions, including disposal gains of US\$50.2 million (2006: Nil). **Basic earnings per share were HK 81.39 cents** (2006: HK 21.95 cents)
- **Interim dividend of HK 45.0 cents per share**, representing a payout ratio of 55% (2006: 92%)
- **Strong balance sheet** with total assets of US\$1,036.2 million and shareholders' equity of US\$599.5 million. Return on average equity was 63% (2006: 25%)
- **Handysize revenue days increased by 27% to 9,590** (2006: 7,570) due to expanded owned and long term chartered fleet. Handysize daily rate increased by 37% to US\$19,750 (2006: US\$14,400)
- **Ship expenditure totalled US\$167.1 million** (2006: US\$97.5 million) including 5 handysizes, 1 tug and 1 barge, and instalments on 5 handysize and 1 handymax newbuildings
- **Ship sales generated disposal gains of US\$50.2 million** (2006: Nil) comprising 7 vessels of which 6 were chartered back
- **Core fleet now totals 83 ships** (1 January 2007: 72), of which 33 are owned and 50 are chartered. This total includes 58 handysize and 10 handymax ships afloat, and 13 handysize and 2 handymax newbuildings
- **Contract cover** is in place for 83% of current 20,040 handysize revenue days in 2007 at an expected yield of about US\$20,000 per day. For 2008, we have covered 28% of our expected 21,920 handysize revenue days at an expected yield of about US\$18,710 per day. Baltic Handysize spot index on 2 August 2007 stood at US\$32,441 per day net
- **Active development** of business model into complementary areas. Particular China focus including co-investments with Nanjing Port Group and with the shipping arm of China's largest power company
- **Positive dry bulk market outlook** for the rest of 2007 based on continued global industrial growth, supply chain infrastructure bottlenecks and lower net fleet growth

## Contract Cover and Daily TCE



● Fixed

● Unfixed

\* Includes an approximate US\$1,000/day anticipated uplift from efficient voyage execution



# Financial Summary

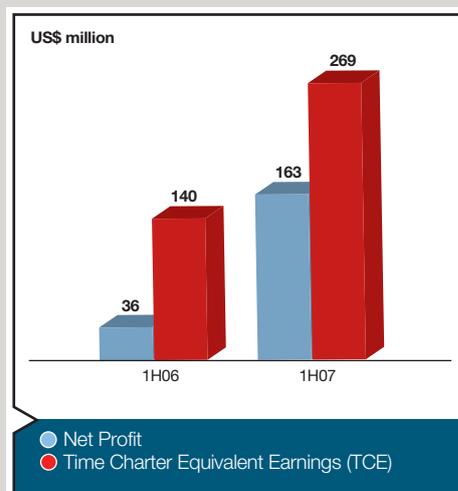
|   | 2007<br>30 June | 2006<br>30 June | 2006<br>31 December |
|---|-----------------|-----------------|---------------------|
|   | US\$'000        | US\$'000        | US\$'000            |
| <b>Results</b>  |                 |                 |                     |
| Turnover  | 455,361         | 239,440         | 620,444             |
| Time Charter Equivalent Earnings                              | 269,229         | 140,397         | 344,776             |
| Operating profit  | 169,529         | 47,043          | 135,234             |
| Finance costs   | (10,244)        | (11,625)        | (26,831)            |
| Net profit  | 162,934         | 36,385          | 110,292             |
| <b>Balance Sheet</b>  |                 |                 |                     |
| Assets  | 1,036,235       | 733,053         | 919,895             |
| Net borrowings  | 236,315         | 337,734         | 287,223             |
| Shareholders' equity  | 599,530         | 289,587         | 484,993             |
| Cash  | 83,251          | 42,592          | 63,242              |
| Capital commitments   | 225,318         | 283,149         | 251,683             |
| <b>Cash Flows</b>   |                 |                 |                     |
| Operating   | 131,349         | 57,286          | 148,188             |
| Investing   | (24,137)        | (91,399)        | (241,075)           |
| Financing   | (87,203)        | (5,506)         | 74,048              |
| Change in cash  | 20,009          | (39,619)        | (18,839)            |
|   | HK cents        | HK cents        | HK cents            |
| <b>Per Share Data</b>   |                 |                 |                     |
| Basic EPS   | 81              | 22              | 65                  |
| Dividends   | 45              | 20              | 42.5                |
| Cash flows from operating activities                          | 131             | 69              | 87                  |
| Net asset value   | 298             | 175             | 243                 |
| Share price at period end                                     | 880             | 353             | 490                 |
| <b>Market capitalisation at period end</b>                    |                 |                 |                     |
|   | HK\$13.8 bn     | HK\$4.5 bn      | HK\$7.6 bn          |
| <b>Ratios</b>   |                 |                 |                     |
| Net profit margin   | 61%             | 26%             | 32%                 |
| Dividend yield <sup>(1)</sup>                                 | 5%              | 10%             | 15%                 |
| Payout ratio  | 55%             | 92%             | 71%                 |
| Return on average assets                                      | 35%             | 11%             | 15%                 |
| Return on average equity                                      | 63%             | 25%             | 36%                 |
| Total shareholders' return <sup>(2)</sup>                     | 84%             | 8%              | 51%                 |
| Number of full time shore based staff per vessel              | 2.5             | 3.0             | 2.8                 |
| Net borrowings to book value of property, plant and equipment | 30%             | 57%             | 38%                 |
| Net borrowings to shareholders' equity                        | 39%             | 117%            | 59%                 |
| Interest coverage <sup>(3)</sup>                              | 18.8X           | 5.5X            | 6.3X                |

<sup>(1)</sup> Dividend yield represents the dividends per share paid during the period divided by the share price at the beginning of the year.

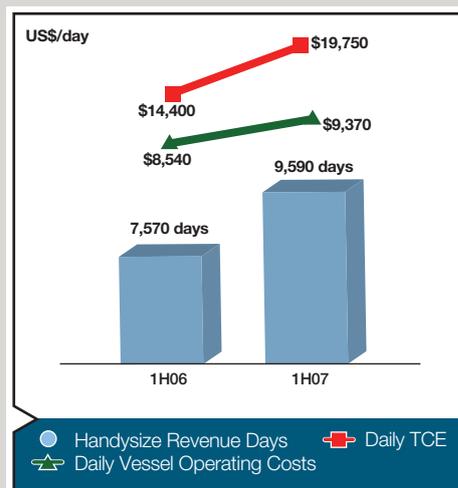
<sup>(2)</sup> Total shareholders' return represents share price capital gain and dividends paid during the period divided by the share price at the beginning of the year.

<sup>(3)</sup> Interest coverage is calculated as EBITDA divided by interest and finance charges. EBITDA is defined as earnings before interest and finance charges, tax, depreciation and amortisation.

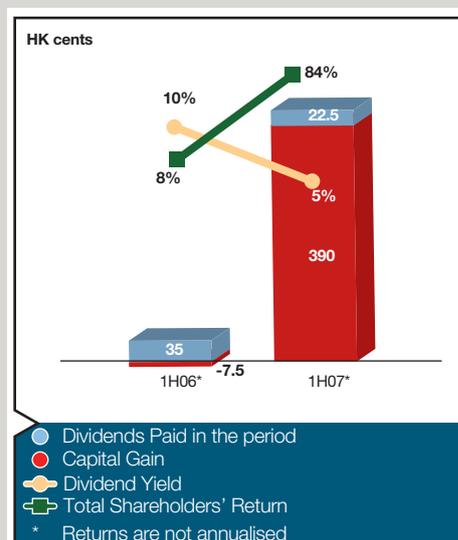
## Time Charter Equivalent Earnings (TCE) and Net Profit



## Handysize Revenue Days, Daily TCE and Daily Vessel Operating Costs



## Total Shareholders' Return





# Interim Report of the Directors

## SUMMARY

Pacific Basin Group's unaudited net profit for the six months ended 30 June 2007 was US\$162.9 million, including US\$50.2 million of disposal gains (2006: US\$36.4 million, no disposal gains). Basic earnings per share were HK 81.39 cents (2006: HK 21.95 cents). The Group delivered a return on average shareholders' equity for the period of 63% (2006: 25%).

Increasing demand for handysize and handymax dry bulk ships fuelled by strong global industrial growth, and a supply squeeze aggravated by infrastructure failings have pushed freight rates to all time highs. Our daily handysize time charter equivalent earnings for the period were US\$19,750 (2006: US\$14,400) and our turnover was US\$455.4 million (2006: US\$239.4 million) on the back of 11,850 vessel revenue days in our IHC

(handysize) and IHX (handymax) pools (2006: 8,890 days). Our operated fleet (which includes 30 short term charters) as at 1 August totalled 98 ships of which 62 were handysize and 36 were handymax.

Our results have been steadily improving in 2007. There was no seasonal summer market slowdown in 2006 nor, to date, in 2007. As at 2 August, the Baltic Handysize Index ("BHSI") stood at US\$32,441 net and market expectations are that strong rate levels will be maintained: Clarkson's one year handysize time charter rate was US\$27,550 net, compared to US\$18,170 net at the start of 2007, and US\$15,400 net in August last year. Vessel prices have also seen a remarkable increase, with 5-year old handysize second hand ships estimated by us to be worth around US\$41 million today, compared with US\$27 million in August last year.



We have continued to be active on the sale and purchase front. We look for off-market opportunities to acquire young tonnage that will add to our fleet earnings at reasonable cost whilst also being prepared to sell (preferably with charter back) when we are approached by buyers with more aggressive criteria than our own. During the three years since we listed, the total value of our sales and purchases amounts to over US\$1.4 billion.

Thus we have taken advantage of very buoyant prices by selling seven older vessels, six with charter backs, all in private, “off-market” transactions. In addition, in June, we sold “Matariki Forest”, a newly delivered handysize, for US\$45 million with delivery to buyers in September 2007. This price set a new all time high for handysize bulk carriers. In July we sold, for delivery to buyers within March 2008, also for US\$45 million, “Crescent Harbour”, a handysize

newbuilding which will deliver to us from the yard in mid December 2007. The value to us of both vessel sales is enhanced by buyers’ agreement to deferred delivery, which gives us three to four months of earnings over and above the sales proceeds, and also by buyers giving us 11-13 month charter backs at favourable rates.

At the same time we have continued to expand our delivered handysize fleet through one second hand purchase, two long term charters and the delivery of three newbuildings. We have also expanded our delivered handymax fleet with four long term charters. Our newbuilding programme will help to ensure steady future additions to our owned fleet, and, during the period, was augmented by orders for four further vessels, of which three are handysize and one is handymax. Our core fleet therefore now totals 83 vessels (including newbuilding commitments), up from 72 at the beginning of the year.

We have, as before, opted for a careful balance between forward contract cover and exposure to the rising market. Our handysize fleet is now 61% booked for the balance of 2007, and 28% booked for 2008. This puts the Group on a firm footing to deliver stable returns to shareholders whilst also allowing us to benefit from unprecedented current spot market conditions.

We continue to develop our business beyond the provision of port to port shipping. On 18 July 2007, we signed an agreement with the Nanjing Port Group to co-invest in and jointly operate a three berth port facility at the highest navigable point for oceangoing vessels on the Yangtze River. We expect this facility for handysize and handymax vessels to become operational in August 2007. This is an important development for our Group, and we intend to develop further bulk port sites in China that are complementary with our main business. On another front in China, we

have recently agreed to incorporate a joint venture with the shipping arm of China's largest power producer to procure long term tonnage for China's international coal trade and this joint venture is already actively acquiring new tonnage. Our joint venture in the aggregate trades out of Fujairah in the Middle East has also continued to develop and now has a small fleet of tugs and barges to complement its handysize and handymax services. Pacific Basin has acquired one tug and one barge for long term charter to the joint venture.

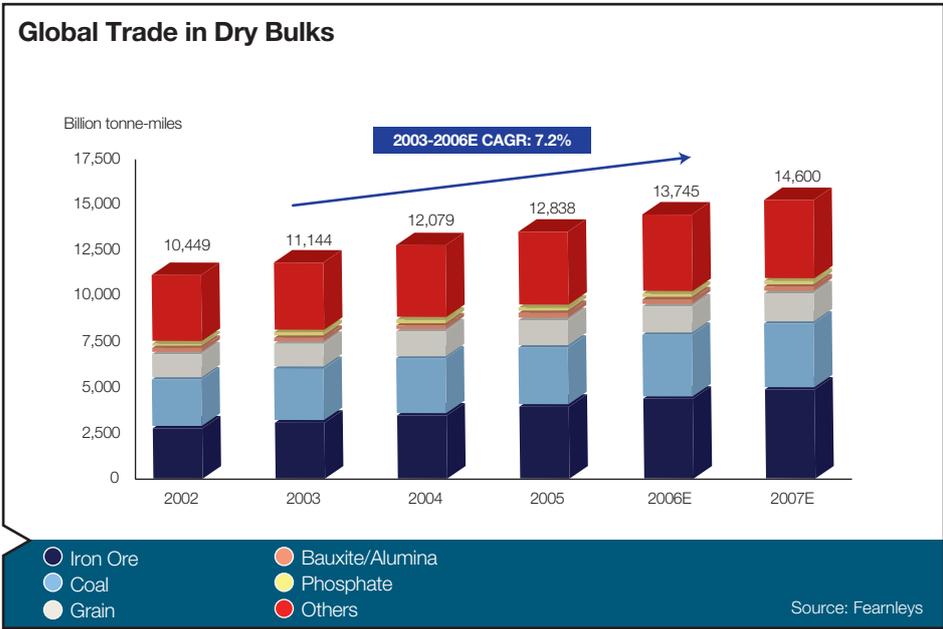
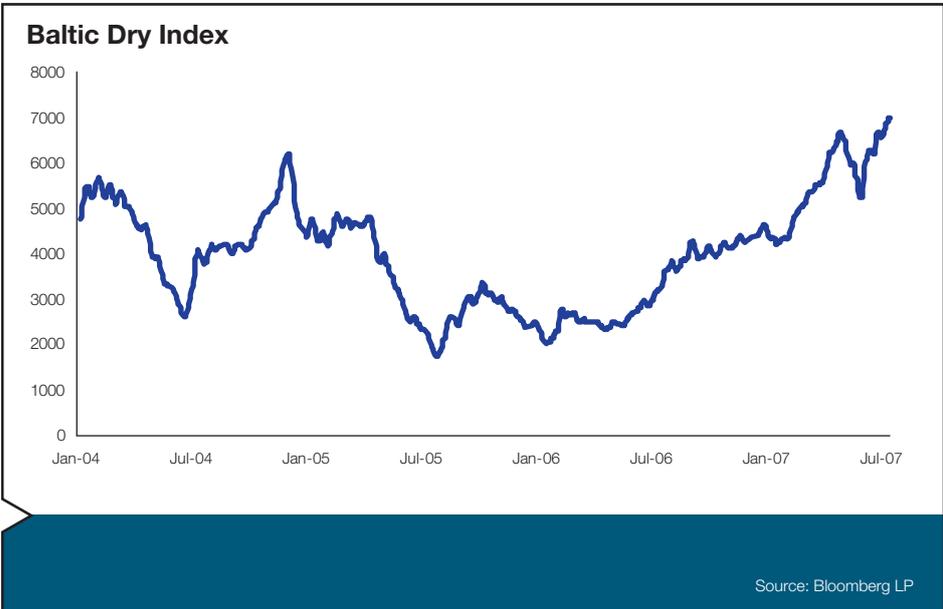
Our Board considers the outlook for dry bulk shipping to be positive and, taking into account all the factors affecting our business, has declared an interim dividend of HK 45 cents per share (2006: HK 20 cents). This represents a payout of 55% of earnings (2006: 92%). Our aim continues to be to satisfy our shareholders' dividend expectations without constraining the development of the Group.



**MARKET REVIEW**

The first half of 2007 was a record breaking period for the dry bulk market. This period saw the highest ever Baltic Dry Index (“BDI”) January-June average of 5309 points, 19% above the previous first half average high set in 2004. On 15 May the BDI reached its highest level ever prior 30 June of 6688 points. It has since risen higher still, reaching a record 7000 points on 2 August. The market also witnessed average monthly deliveries of 2 million deadweight tonnes of new dry bulk vessels during

the period: it testifies to the strength of demand that rates have remained so strong despite such a large volume of deliveries. There now exists the largest ever pool of old bulk carriers eligible for demolition, thanks to an extended period of high rates which has kept vessels in service beyond their long term historic average scrapping age of around 28 years. Lastly, second hand and newbuilding ships have been bought and sold at prices never seen before, reflecting shipowners’ confidence in a strong forward market. These trends have continued into July and early August.

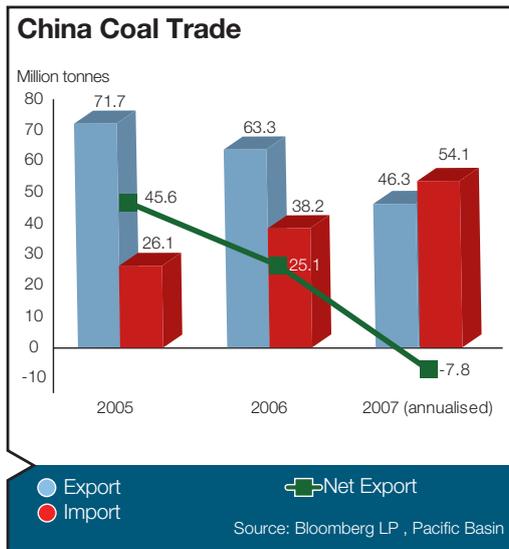


As in 2006, the large number of newbuilding deliveries has been absorbed by the ongoing commodity boom. The movement of minor bulks carried by handysize vessels is poorly documented, so we consider it much more useful to discuss demand for the 'major' bulks (coal, iron ore, grain) which are more accurately followed, and can serve as a proxy for overall dry cargo trends. According to Fearnleys, major bulk cargo

activity, measured in tonne-miles (which is the best measure of tonnage demand), is expected to have grown by an annualised 7.4% in the first half of 2007, whereas tonnage supply, measured as newbuilding deliveries less scrapping, grew by 6% annualised.

Coal has played a major part, and China, the world's largest producer and consumer of coal, became, for the first time in January 2007, a net importer. In the first half of 2007, China is estimated to have imported over 27 million tonnes of foreign coal, mainly to feed its rising power requirement. In addition, increased demand and insufficient railway transportation capacity have led to higher coastal trade volumes from coal mining regions in the north to major consuming regions in the south and east of China.

According to SSY, the Chinese coastal coal trade could grow in 2007 by 12 to 14%, or 40 to 50 million tonnes, to about 400 million tonnes, in the process absorbing vessels from the internationally traded fleet.

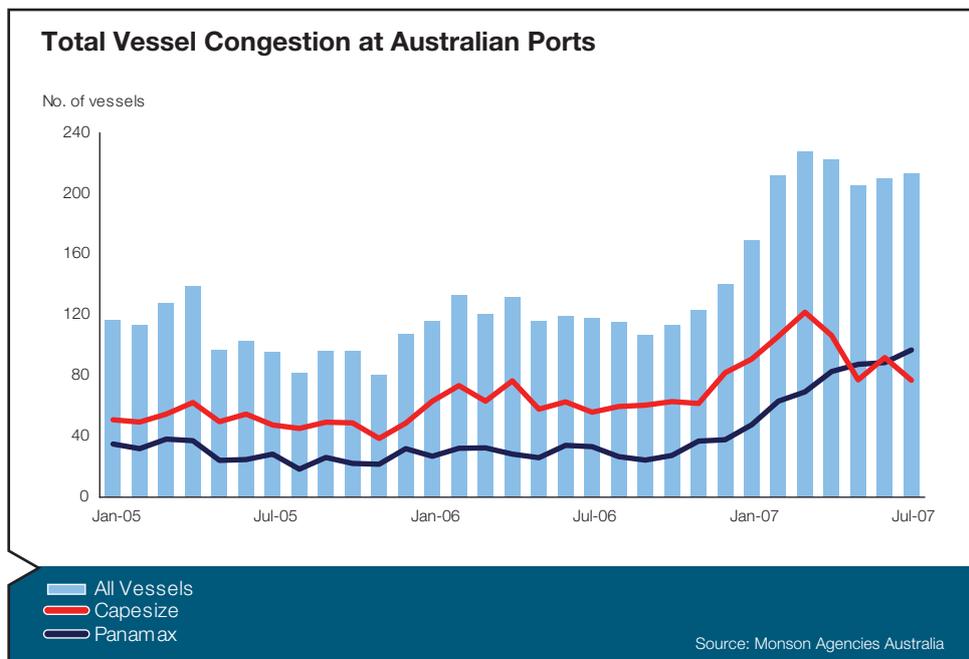


The reduction in their ability to source coal from China has led Far Eastern countries such as Japan and South Korea to import from further afield, mainly Australia and Indonesia, which has increased the average distance travelled by dry bulk cargoes and fuelled tonnage demand. Rail and port handling capacity at Australian coal loading ports failed to cope with the increased coal demand, and, as a result, there was a sharp rise in the number of ships, mainly capesize and panamax, waiting to load. This vessel congestion, which eased early in the second quarter of 2007, again increased in June, with storms leading to the closure of several important coal mines and of the port of Newcastle for a week. As at the end of July, nearly 10% of the capesize fleet and 7% of the panamax fleet was tied up in Australian ports alone, while congestion has also affected ports in China and Brazil. The direct effect of congestion on handysize and handymax vessels is less significant

since they are not as important to the coal trades as the larger vessels. However, the removal of a large percentage of panamax and capesize ships from the market has had a significant inflationary effect on freight rates for smaller bulk vessels.

China's appetite for iron ore also continues to grow with imports in the first half of the year up by 16% over the same period of 2006. Imports from Brazil were up by 23%, whereas imports from Australia were up by 18%: the fact that iron ore has to travel more than twice as far to China from Brazil as from Australia also pushes up tonnage demand.

China's steel production has not abated since her debut as a net exporter during 2006. In the first half of the year, China's steel production increased by 18% year-on-year to 237 million tonnes and her net steel exports totalled 29 million tonnes during this period (2006: 11 million tonnes).

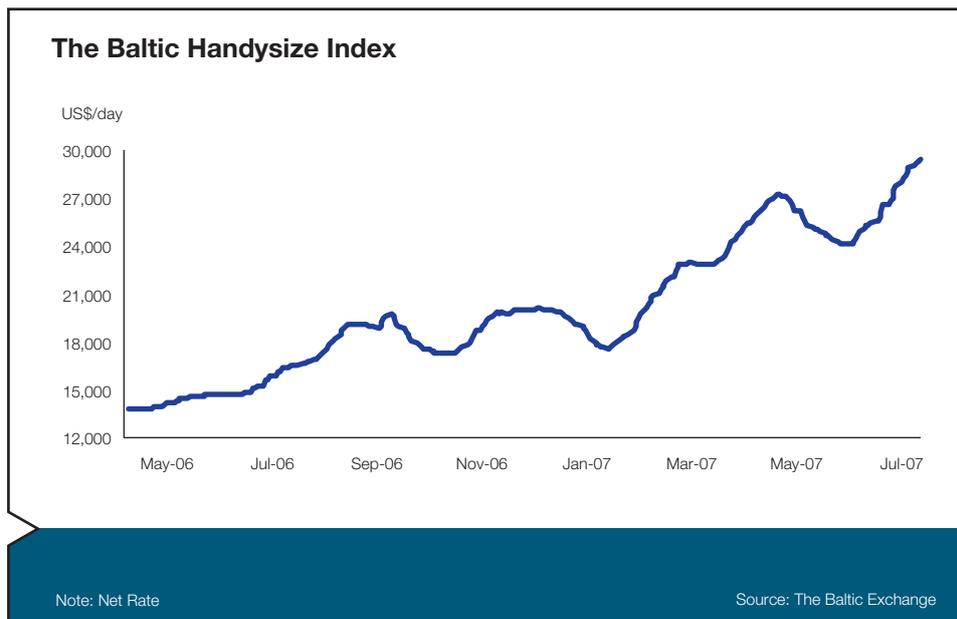
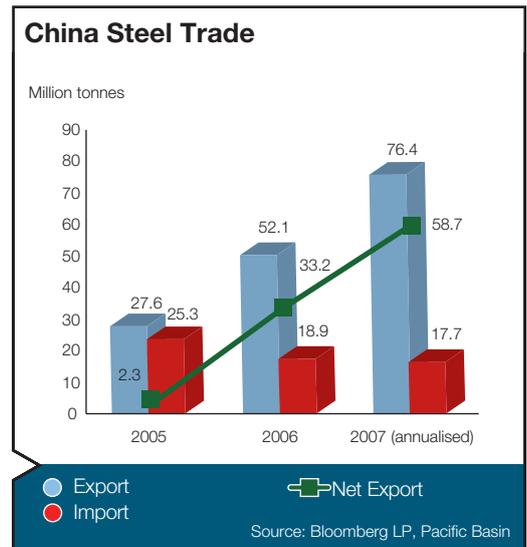


Aluminium production in China for the first half of the year increased by 37% over the same period in 2006, and China's import of bauxite, the raw material used for aluminium production, was up by a massive 195% to 10.1 million tonnes.

In line with the general dry bulk freight market, the handysize sector has remained very strong in the first six months of 2007 with average BHSI spot rates trading above US\$20,000 per day net for most of the first quarter and above US\$25,000 per day net for most of the second quarter. The BHSI peaked in mid May just below US\$30,000 per day net driven by strong demand in the Atlantic from South American grain exports, and then declined until the end of June, when it recovered to finish the month just above US\$27,000 per day net. The recovery since then has continued and, as of 2 August, the BHSI stood at US\$32,441 per day net.

The underlying strong demand for minor bulk commodities, led in many cases by China, has continued to support high handysize freight rates. This includes a growing demand for commodities such as logs, alumina and mineral sand. Another

contributor to the stronger market has been a shift in the Atlantic grain trades towards export from South America rather than from the US Gulf because the US is increasingly using domestic corn for ethanol production. Again, this has led to an increase in the average distance travelled by dry bulk cargoes.



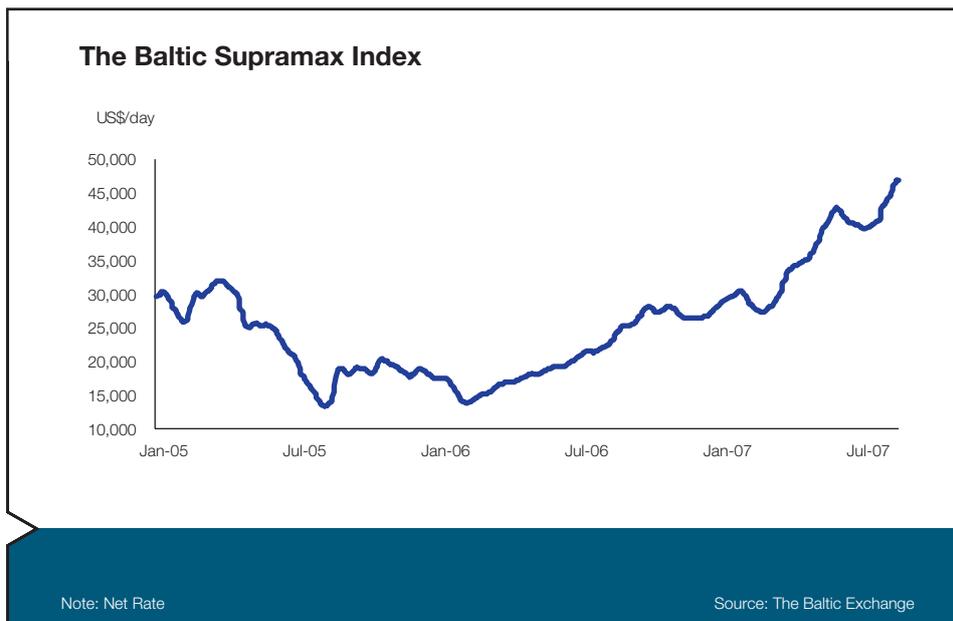
On the handymax front, the Baltic Supramax Index (“BSI”) has increased broadly in line with the BHSI. Having hit a new record of US\$42,810 per day net on 16 May 2007, the index ended June at US\$40,124 per day net, up 35% on the US\$29,709 level at which it opened 2007, a rise driven mainly by Chinese steel exports, Indonesian coal, Chinese cement exports and ongoing congestion. The handymax sector has also benefited from increased Chinese demand for bauxite and nickel ore (used in stainless steel production). During the period we have regularly seen handymax tonnage picking up coal and grain cargoes usually carried by capesize and panamax ships, since coal and iron ore demand, combined with congestion, has absorbed so much capesize and panamax vessel supply. As at 2 August, the BSI stood at US\$46,806 per day net.

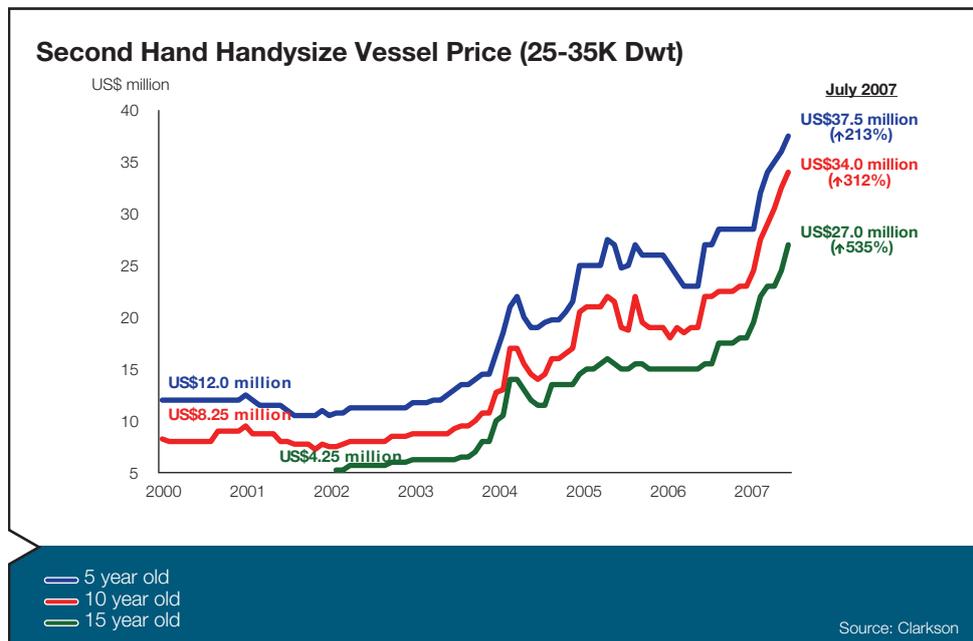
**Vessel Supply: Orderbook, Scrapping, Asset Values**

At the beginning of 2007, second hand bulk carrier values stood at all time highs – about 9%

over their previous highs in the spring of 2005 – and Clarkson’s value for a five year old handysize stood at US\$28.5 million. Boosted by sustained market confidence and the lack of available sales candidates, prices have continued to increase during the first and second quarters of this year. Clarkson’s most recently published value for a 5-year old 28,000 deadweight tonne vessel stands at \$37.5 million. However, based on “last done” vessel sales, amongst them our own, we put that value at about US\$41 million, some 44% higher than at the start of the year and almost 50% more than this time last year. Ship values rose particularly steeply during the last quarter, when freight rates exceeded their previous all time highs.

Values of modern handymax vessels have behaved in a similar manner, with successive record levels being achieved through the first six months of this year. At the end of July prices are estimated to be about 35% higher than they were at the beginning of 2007.





Shipyards have this year received a very high level of interest from owners wanting to contract bulk carriers, which has resulted in increased newbuilding prices for all vessel sizes. Appreciation against the US dollar of the currencies of Korea and China, where about 60% of available shipyard capacity is based, has added further upward pressure on newbuilding prices, although the weak yen has meant that Japanese yards have been able to increase their margins. Meanwhile the cost base for all yards has been raised not just by higher steel prices and by the limited availability of machinery, but also by the introduction of stricter statutory regulations, making construction more expensive for new contracts being signed. As a result the average lead time from contract signing until vessel delivery has continued to widen, and early berth positions are able to command a premium over later ones.

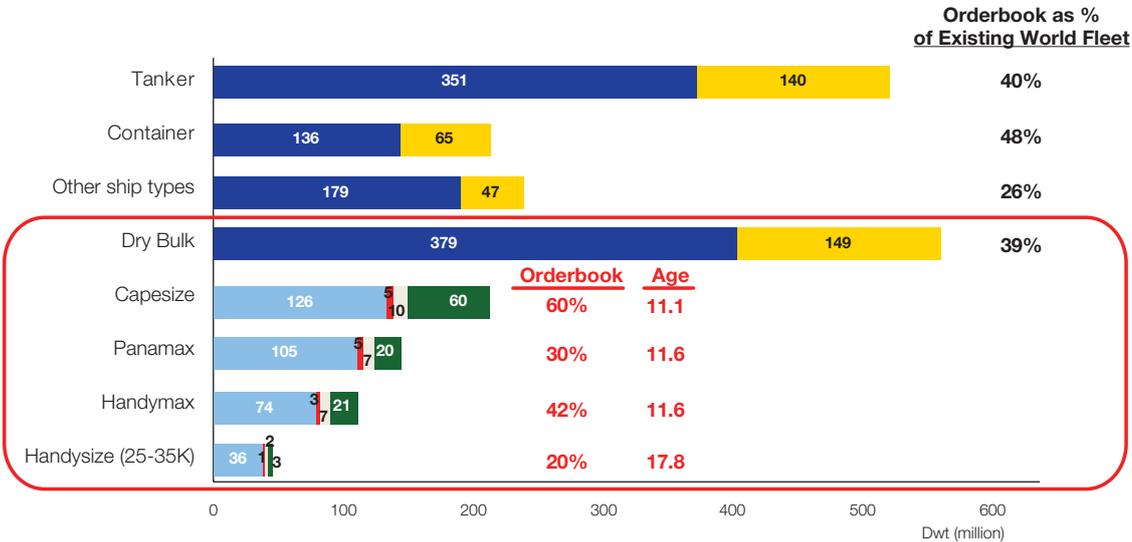
Nevertheless, increased ordering has pushed the orderbook for dry bulk vessels up to 39% of the existing fleet as at July and is likely to increase it further in future months. We therefore need to keep a careful eye on this indicator. The market impact of the orderbook will, in practice, be

mutated by scrapping, which cannot be postponed indefinitely, and by the fact that much yard capacity is already booked in 2007-2009, so that most new orders are for delivery in 2010 and beyond: it is difficult enough to predict the level of cargo tonne-mile demand in 2008, let alone 2010. In respect of scrapping, tonnage over 28 years old (the long term historic scrapping age) already comprises 6% of the overall dry bulk fleet and will, by 2010 (assuming no scrapping in the meantime) be up to 10%.

Meanwhile, within dry bulk, the handysize (25,000-35,000 deadweight tonne) segment continues to have by far the lowest orderbook at 20%, compared with 60% for capesize, 30% for panamax, and 42% for handymax. Further, handysize tonnage over 28 years comprises 21% today and will be 26% by 2010 (assuming no scrapping in the meantime).

With such a benign age profile and a relatively low orderbook, the handysize sector seems likely to maintain the lowest net fleet growth and therefore the best supply/demand characteristics, at least from the shipowners perspective, in dry bulk.

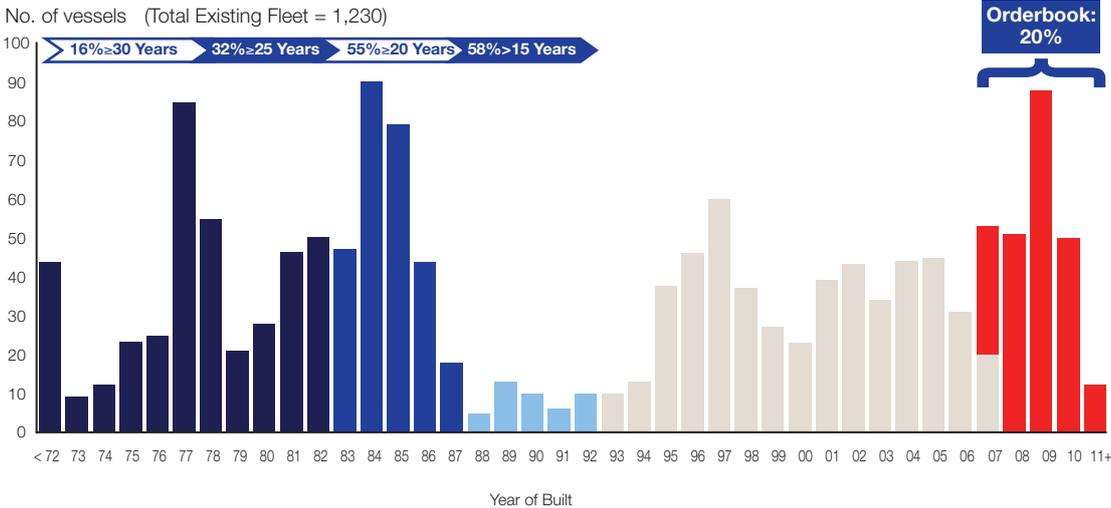
**Orderbook of World Fleet and Dry Bulk Sectors – July 2007**



- Existing Fleet
- Orderbook 2007-2009+
- 2007 Orderbook
- 2008 Orderbook
- 2009+ Orderbook

Source: Clarkson

**Ageing Fleet Versus Orderbook (25-35K dwt) – July 2007**



Source: Clarkson

## BUSINESS REVIEW

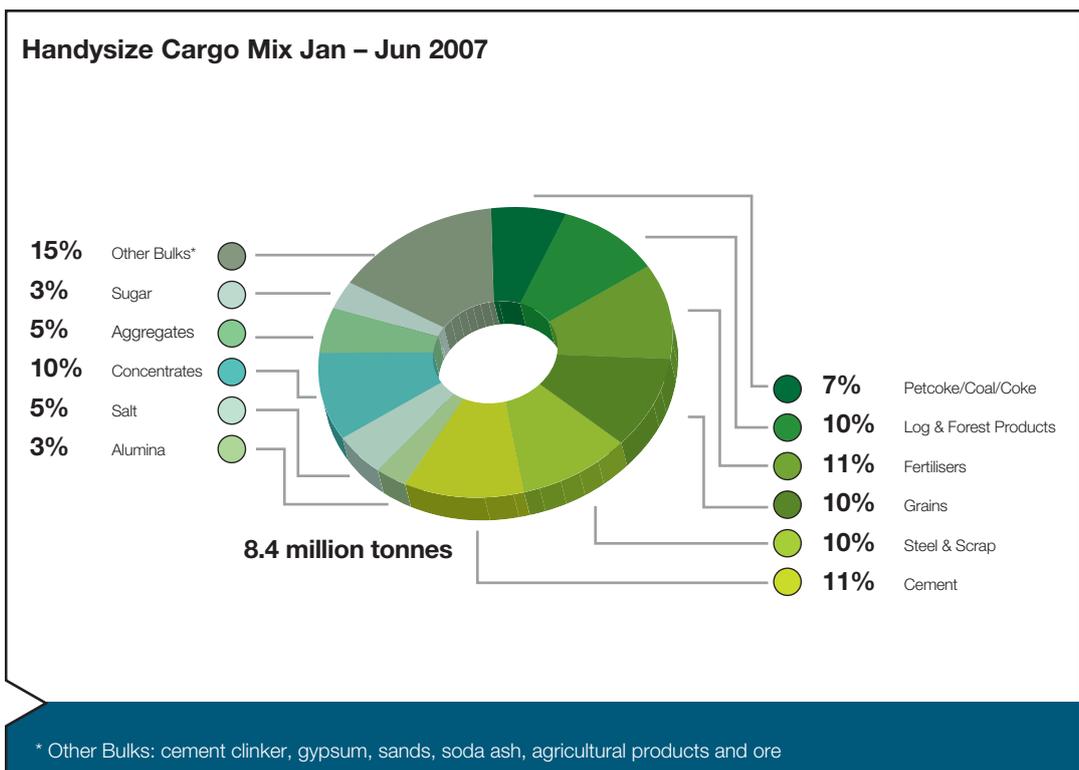
### Handysize

Our International Handybulk Carriers (“IHC”) pool strives to provide its customers with a punctual and reliable service using homogenous, modern ships in a market where increasingly strong cargo demand is placing much more pressure on an ageing world fleet. This pressure is leading to greater uncertainty for end-users of handysize ships, and eliminating this uncertainty is a key objective of IHC. During the first half of 2007 we have continued to strengthen the two key elements under our control – our fleet size and our organisation – so as to be able to offer a better service to our customers.

During the first six months of 2007, we expanded the average number of handysize ships we operated to 64 ships, which is an increase of about 10% from the 58 ships we operated during the same period last year. As of 1 August, the IHC fleet consists of a mix of Pacific Basin owned (18) and long term chartered (39) ships complemented by a smaller number of managed (4) and short term chartered (4) ships. IHC controls one of the largest and most modern fleets of handysize

dry bulk ships in the world, its scale ensuring the high levels of operational flexibility that allow it to better meet customers’ deadlines when unforeseen circumstances (such as weather and port congestion) impact schedules. The expanded IHC fleet has in the first half of 2007 carried over 8.4 million tonnes of cargo, which is 15% more than the 7.3 million tonnes carried during the same period in 2006 in a trading pattern that continues to focus on the Pacific Rim. Australia, New Zealand and the West Coast of North America remain our top loading zones, with Asia our primary delivery destination.

The other key element of IHC is its people, both ashore and at sea. Our offices, staffed with experienced chartering and operations professionals, are located close to our customers. In February we opened an office in Auckland, New Zealand, one of our core markets, in order to better serve importers and exporters in this region. We also reinforced our team in China, the world’s fastest growing dry bulk market, to meet demand from Chinese clients.



Our sea-faring staff are drawn mainly from China, Russia and the Philippines. We already have our own organisation in China to manage the recruitment, training and care of our officers and ratings and, during the period, we took steps to strengthen our presence in the Philippines. With the world shipping fleet set to grow significantly over the next few years, ensuring our access to high quality officers and ratings will be essential to our ability to provide the premium service that our customers demand.

In the first half of 2007, IHC achieved net earnings of US\$19,750 per day. As of 1 August 2007, we had covered 83% of our handysize revenue days for 2007 at an average rate of about US\$20,000. This rate includes a premium of about US\$1,000 per day above the base contract rate which we expect to achieve by combining front haul with back haul cargoes. Furthermore, we have now covered 28% of the 21,920 revenue days that our existing fleet is expected to provide in 2008 at

about US\$18,710 per day (including our estimated US\$1,000 execution premium). We expect to build our forward cover for 2008 and beyond during the remainder of the year, which is traditionally the peak season for cargo contract renewals.

IHC continues to make limited use of forward freight agreements (or FFAs) to complement its forward physical cover and, during the period, we saw an increased number of counterparties interested in trading FFAs against the BHSI index. This is most helpful to our business because it allows us to hedge better our exposure to physical handysize ships. During the period, we incurred an FFA expense of US\$15.2 million, of which US\$5.5 million relates to operations in the period, US\$9.5 million to operations in the second half of 2007 and US\$0.2 million to operations in 2008.

The following table sets out IHC's fleet revenue days and cover rates in 2007-2008, as at 1 August 2007:

| <b>Handysize Vessel Activity Summary</b> |      |         |         |
|--|------|---------|---------|
|  | Unit | FY 2007 | FY 2008 |
| <i>Cargo Commitments</i>                 |      |         |         |
| Revenue days                             | days | 15,470  | 5,340   |
| Net paper contracts                      | days | 1,170   | 860     |
| Equivalent revenue days                  | days | 16,640  | 6,200   |
| Daily TCE                                | US\$ | 20,000  | 18,710  |
| <i>Ship Commitments</i>                  |      |         |         |
| Revenue days                             | days | 20,040  | 21,920  |
| <i>Net Position</i>                      |      |         |         |
| Cargo as % of ship commitments           | %    | 83%     | 28%     |
| <b>Handysize FFA Activity Summary</b>    |      |         |         |
|  | Unit | FY 2007 | FY 2008 |
| FFA paper sold                           | days | 2,150   | 860     |
| FFA paper bought                         | days | –       | –       |
| Net realised paper exposure              | days | 980     | –       |
| Net FFA paper sold                       | days | 1,170   | 860     |

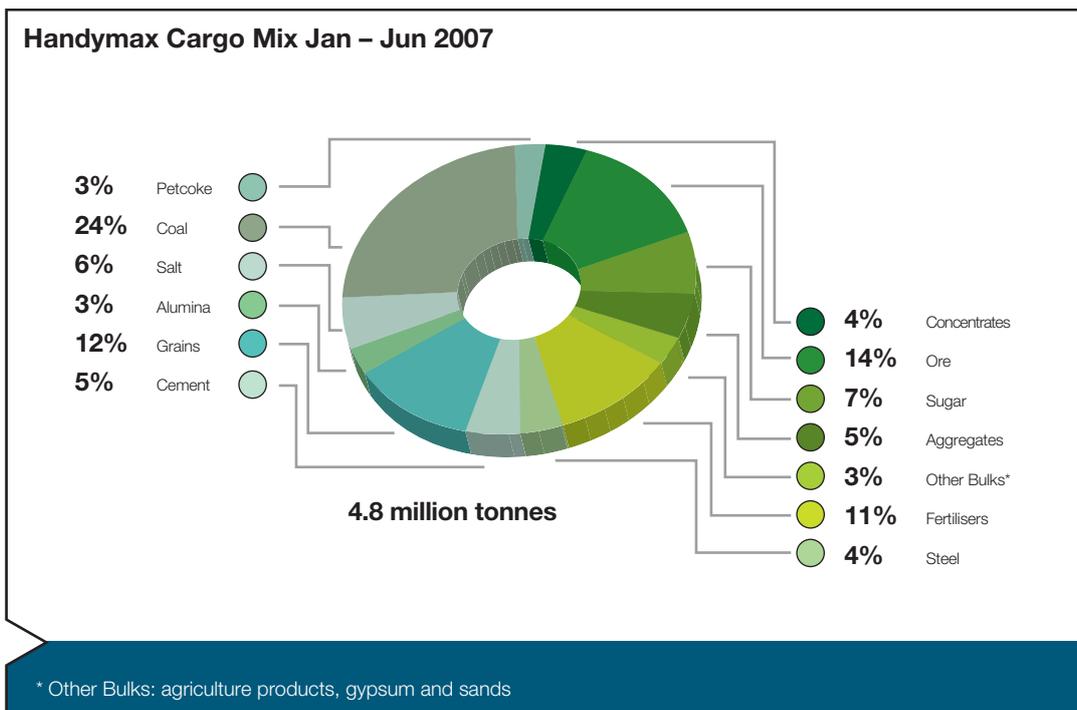
**Handymax**

Our International Handymax Carriers (“IHX”) pool has entered its second year of operations recording substantial and profitable growth. During the period we took steps to reinforce our IHX teams in Melbourne, Shanghai and Vancouver and have continued to build the IHX fleet in both the Atlantic and the Asia Pacific regions. IHX regularly provides complementary new business to IHC and vice versa.

Like IHC, IHX manages a fleet of modern vessels. Its fleet has an average age of just over six years, and its ships are typically between 45,000 and 58,000 deadweight tonnes. The fleet consists of a mix of Pacific Basin owned (2) and long term chartered (6) ships complemented by a number of managed (1) and short term chartered (26) ships, and we were pleased to welcome another external owner to the pool during the period. IHX now controls a day to day fleet of approximately 35 vessels (1 January 2007: 23), giving it critical mass and visibility in its core trade areas. Subject to market conditions, we expect further fleet growth during the balance of 2007.

IHX’s cargo volumes have increased four-fold to 4.8 million tonnes in the first half of 2007 (2006: 1.2 million tonnes). IHX’s top five commodities transported were coal, iron ore, bauxite ore, grains, and fertilisers and it recorded significant increases in the volume of coal and bauxite ore that it carried as a result of very strong global demand for these commodities. IHX also carried important volumes of sugar, salt, steel and cement. IHX’s customer base comprises mainly of the larger commodity, industrial and mining companies. About 70% of IHX’s cargoes moved within the Pacific and 30% within the Atlantic. The primary load regions were the resource rich areas of Australia, the West Coast of the United States and India.

During the first half of 2007, IHX achieved net earnings of US\$25,180 per day in respect of 2,260 revenue days. As of 1 August 2007, we had covered 95% of our 4,590 handymax days for 2007 at an average daily rate in excess of US\$23,700, and 31% of 2,420 expected revenue days for 2008, based on the existing fleet. IHX continues to make good progress in building its cargo cover for 2008.



IHX made a profit during the period of US\$9.5 million, which was boosted by an exceptional performance in the second quarter. Like IHC, IHX also makes limited use of FFAs to hedge a portion of its forward freight exposure. Therefore, this profit makes provision for an FFA expense of US\$2.6 million in respect of operations during the period, US\$2.7 million in respect of operations in the second half of 2007, and US\$0.9 million in

2008. Our first half 2007 profit compares with a full year 2006 loss of US\$4.1 million. We have locked in cover at lower rates in the second half of 2007 which is expected to result in modest profits for this period.

The following table sets out IHX's fleet revenue days and cover rates in 2007-2008, as at 1 August 2007:

#### Handymax Vessel Activity Summary

|                                | Unit | FY 2007 | FY 2008 |
|--------------------------------|------|---------|---------|
| <i>Cargo Commitments</i>       |      |         |         |
| Revenue days                   | days | 4,370   | 750     |
| Net paper contracts            | days | –       | –       |
| Equivalent revenue days        | days | 4,370   | 750     |
| Daily TCE                      | US\$ | 23,700  | 21,000  |
| <i>Ship Commitments</i>        |      |         |         |
| Revenue days                   | days | 4,590   | 2,420   |
| <i>Net Position</i>            |      |         |         |
| Cargo as % of ship commitments | %    | 95%     | 31%     |

#### Handymax FFA Activity Summary

|                             | Unit | FY 2007 | FY 2008 |
|-----------------------------|------|---------|---------|
| FFA paper sold              | days | 1,650   | 370     |
| FFA paper bought            | days | 1,650   | 370     |
| Net realised paper exposure | days | –       | –       |
| Net FFA paper sold          | days | –       | –       |



### **Other Operations and Business Development**

Notable progress has been made in developing Pacific Basin's business in areas which are complementary with our core handysize and handymax operations.

On 18 July, Pacific Basin's subsidiary Asia Pacific Maritime & Infrastructure Group ("APMIG") entered into a joint venture agreement with the state owned Nanjing Port Group ("NJP") that will see Pacific Basin hold a 45% interest in Nanjing Longtan Tianyu Terminal Company Limited. The Longtan Tianyu terminal is a newly constructed general cargo terminal which is part of the larger Longtan port and logistics base development on the eastern outskirts of Nanjing, the highest point on the Yangtze River that is accessible to handysize and handymax tonnage. The terminal is scheduled to be operational in August 2007 and is expected to benefit from the increasing throughput in the Nanjing region of steel products, scrap metal, bagged grain and other general cargoes. It will also serve as a transshipment hub for cargoes requiring transport to and from China's rapidly industrialising hinterland. We consider NJP and Pacific Basin to be excellent partners for this project, and anticipate an equity commitment of US\$16 million to this project in 2007. After anticipated small operating losses in the start-up period while cargo volumes build, we expect to generate good returns on our investment.

Pacific Basin intends to continue building its business in China. As a management team, we have been building ships in China since 1989, and we have a current order for eight 32,500 deadweight tonne vessels at Jiangmen Nanyang Shipyard in Guangdong province. We have manned ships with Chinese nationals since 1991, we own an office in Beijing, and are also well established in Shanghai and Dalian. Our activities in China are led by Mr. Wang Chunlin, formerly Assistant President of the Sinotrans Group and now a main Board Director of Pacific Basin and managing Director of APMIG, and Mr. Ben Lee, formerly President of China Machinery Corporation and now President, Pacific Basin China. Both gentlemen had long associations with Pacific Basin before joining us. Nevertheless our commitment with NJP represents Pacific Basin's first investment in PRC maritime infrastructure. Following the conclusion of this joint venture, we expect to conclude further maritime-related infrastructure projects in China in the next twelve to eighteen months.

On another front in China, we are developing our relationship with the shipping arm of China's largest power producer, to whom in 2005 we long term chartered one ship for operation in the Chinese coastal coal trades and with whom we operated three vessels in IHX in 2006 and early 2007. We have now agreed to take this relationship to the next stage by incorporating Pacific Time Shipping (PTSL), a 50/50 joint venture which will operate in China's growing international coal trades. PTSL's first deal is the long term charter of a 95,000 deadweight tonne bulk carrier newbuilding to be constructed by Imabari Shipbuilding (with whom Pacific Basin has a close relationship and who built 17 of the handysize vessels in our IHC fleet) for delivery to the joint venture in the first half of 2011. PTSL also expects to order a 115,000 deadweight tonne bulk carrier for delivery from a Chinese yard in the first half of 2010.

In the Middle East, Fujairah Bulk Shipping L.L.C., our joint venture (33% economic interest) with the Government of Fujairah and other interests, has flourished in the business of supplying rock and aggregate to end users of these materials in the Arabian Gulf. In addition to its bulk carrier operations, a fully fledged tug and barge operation now transports increasing volumes of aggregate and rock from its own loading facility to destinations within the Gulf, and we expect these volumes to double in the second half of the year. During the period, Pacific Basin agreed to invest US\$5.2 million in a tug and a barge which delivered to us in May 2007 and have been long term chartered to the joint venture. Fujairah Bulk Shipping recorded a total net profit of US\$5.3 million in the first half of the year (2006: US\$0.6 million).

During March 2007, our Board approved our investment of up to US\$50 million in a limited number of publicly traded shipping equities, to take advantage of our access to shipping market information through our network of offices and our relationships within the industry. The largest single investment to date has been in Thoresen Thai Agencies, a dry bulk owner and operator based and listed in Bangkok. In this case, we sought to take advantage of a perceived undervaluation of their share price. A solid performance by the shipping markets coupled with a healthy global equity climate have helped us to generate a gain, as at 30 June, of US\$11.3 million on funds invested of US\$34.9 million, representing a return since inception of 32.4%.

## Fleet Development

| "Core Fleet" <sup>5,6</sup>                                       | Number of vessels |                        |           |
|---|-------------------|------------------------|-----------|
|   | Owned             | Chartered <sup>1</sup> | Total     |
| <b>Handysize – in operation</b>                                   |                   |                        |           |
| As at 1 January 2007  | 22                | 32                     | 54        |
| Newbuildings delivered  | 3                 | 1                      | 4         |
| Second hand purchase  | 1                 | –                      | 1         |
| Exercise of purchase option of<br>a bareboat chartered in vessel  | 1                 | (1)                    | –         |
| New chartered in  | –                 | 1                      | 1         |
| Sale and time charter back <sup>2</sup>                           | (6)               | 6                      | –         |
| Disposals <sup>3</sup>  | (2)               | –                      | (2)       |
| <b>As at 1 August 2007</b>  | <b>19</b>         | <b>39</b>              | <b>58</b> |
| <b>Handysize – newbuildings</b>                                   |                   |                        |           |
| As at 1 January 2007  | 11                | 1                      | 12        |
| New orders  | 3                 | 2                      | 5         |
| Newbuildings delivered  | (3)               | (1)                    | (4)       |
| <b>As at 1 August 2007</b>  | <b>11</b>         | <b>2</b>               | <b>13</b> |
| <b>Handysize fleet as at 1 August 2007</b>                        | <b>30</b>         | <b>41</b>              | <b>71</b> |
| <b>Handymax – in operation</b>                                    |                   |                        |           |
| As at 1 January 2007  | 2                 | 4                      | 6         |
| New chartered in <sup>4</sup>                                     | –                 | 4                      | 4         |
| <b>As at 1 August 2007</b>  | <b>2</b>          | <b>8</b>               | <b>10</b> |
| <b>Handymax – newbuildings</b>                                    |                   |                        |           |
| As at 1 January 2007  | –                 | –                      | –         |
| New orders  | 1                 | 1                      | 2         |
| <b>As at 1 August 2007</b>  | <b>1</b>          | <b>1</b>               | <b>2</b>  |
| <b>Handymax fleet as at 1 August 2007</b>                         | <b>3</b>          | <b>9</b>               | <b>12</b> |
| <b>Total fleet as at 1 August 2007<br/>including newbuildings</b> | <b>33</b>         | <b>50</b>              | <b>83</b> |

1 Includes 26 handysize and 2 handymax vessels with purchase options

2 Includes "Port Pirie" and "Matariki Forest", the sales of which are currently expected to be completed in August and September 2007, respectively

3 Includes the sale of "Abbot Point" (now renamed "Christine O") which has been chartered back to us for two years immediately after its sale. "Abbot Point" joined our fleet as a managed vessel

4 Includes a vessel which will join our chartered fleet in the fourth quarter of 2007

5 Excludes minibulkers, tugs, or barges

6 Excludes purely managed vessels. We currently have 4 managed handysize vessels and 1 managed handymax vessel operating in the IHC Pool and IHX Pool, respectively

At the start of the year, our core handysize fleet of 66 vessels comprised 22 owned and 32 long term chartered vessels in operation plus 12 newbuildings under construction, 11 of which were expected to enter the owned fleet and one to enter the chartered fleet from delivery. We also had a core handymax fleet of six vessels which comprised two owned and four long term chartered vessels.

#### *Handysize Fleet*

Asset prices have continued to move up through the first seven months of 2007. Vessel values are at record highs and therefore, as previously reported, we continue to take a conservative approach to new vessel investments. Nevertheless, during the period, we were able to acquire "Chatham Island" at a very attractive price in a private, off-market transaction. In addition, three newbuildings joined our owned fleet and one newbuilding joined our chartered fleet upon their respective deliveries, all earlier than scheduled. We have also entered into agreements to charter in three additional vessels for periods ranging between 2 and 8 years, two of which are currently newbuildings under construction and will enter our chartered fleet upon delivery.

In response to the strong sale and purchase market, if approached by buyers with more aggressive criteria than our own, we are prepared to sell ships selectively but preferably with time charter backs to retain revenue days. Since the beginning of this year, we have agreed to sell eight of our owned handysize vessels. Five of these vessels, including "Oak Harbour", "Mount Baker", "Flinders Island", "Ocean Falls" and "Hawk Inlet", have been sold and delivered to respective buyers during the period. "Port Pirie" will be delivered in August following our exercise of the purchase option under her bareboat charterparty whilst the sales of "Matariki Forest" and "Crescent Harbour" are expected to be completed in September this year and in March next year, respectively. In addition, during the period we also completed the sale of two other vessels which we agreed in previous years, including "Port Angeles", a

new vessel delivered in May this year and "Abbot Point" (now renamed "Christine O"). The sale of these ten vessels in total will raise proceeds of nearly US\$290 million of which part will be distributed as dividends and the remainder will be retained for funding future vessel acquisitions and investment projects when suitable opportunities arise. Furthermore, in line with our strategy, we have charter backs agreed for all these vessels, except "Mount Baker", for periods of between 9 months and 5 years. These charter-backs are at very competitive rates and at the same time allow us to retain commercial control and hence the earnings in respect of these vessels during their charters. "Christine O" has been chartered back at a variable, market-related rate and is currently treated as one of our four handysize managed vessels since we earn management fees for operating her.

As a result of the above activities, our core handysize fleet in operation has further expanded by four vessels, or 7%, to 58 vessels since the beginning of 2007, with an average age of just over six years old.

During the period, we have placed orders for three additional new handysize vessels for delivery within 2009. One of these vessels is being constructed at a traditional yard for this vessel type in Japan, while the other two vessels are being constructed at Jiangmen Nanyang Shipyard ("JNS") in Guangdong Province, southern China. This takes the total number of ships which we have on order at JNS to eight at competitive prices. These three vessels constitute rare opportunities in view of the current bullish market, given that the industry handysize orderbook is almost full until 2009 and, in the case of some yards, until end 2011. These acquisitions also enable us to continue our strategy of steadily expanding our fleet and maintaining our low age profile. Accordingly, our orderbook for handysize vessels as at the date of this report stood at 13 vessels, two of which are scheduled to deliver in 2007, five in 2008 and six in 2009.

### *Handymax Fleet*

We have been present in the handymax segment as an operator for over one and a half years. In order to further expand our handymax fleet and to reinforce our presence in this market segment, during the period we entered into agreements to charter in five additional handymax ships on a long term basis. Three of these vessels have already entered our chartered fleet while the other two will join us within 2007. In February, we also placed an order for a 54,000 deadweight tonne newbuilding bulk carrier with a reputable Japanese shipbuilding company, which was another invaluable opportunity to expand our handymax fleet at an attractive price relative to recent strong second hand asset values. One handymax vessel also joined the IHX Pool as a managed vessel during the period.

### *Summary*

At the date of this report, our core handysize fleet comprised 71 vessels, including 19 owned and 39 chartered vessels on the water, and 13 newbuildings on order, 11 of which will enter the owned fleet and two will enter the chartered fleet from delivery. All the handysize vessels in operation, except one which has been long term leased out, are operated through our IHC Pool and it is expected that our newbuildings will expand this service as they deliver. Meanwhile our core handymax fleet comprised 12 vessels including two owned, eight long term chartered vessels and two newbuildings on order. Except for two handymax which are on long term charters to COSCO, all other vessels are operated through our IHX Pool. In addition, we had five managed vessels (four handysize and one handymax) for which we earn management fees. The average age of our core fleet is just over six years old.

We have also taken delivery of a tug and a barge during the period, which are long term chartered to our joint venture in the Middle East, Fujairah Bulk Shipping L.L.C., to assist their aggregate trading business.

### *Short Term Charters*

Outside the core fleet, both the IHC and the IHX Pools also operate a number of short term (defined as less than 12 months) chartered in

vessels, amounting to 4 handysize vessels and 26 handymax vessels, respectively, as at 1 August 2007.

### *Purchase Options*

We hold options to purchase 26 out of our 39 chartered handysize vessels and two out of our eight chartered handymax vessels. These options should hold significant unrealised value for us, given that their strike prices are well below their respective current market values. They also allow us to preserve our fleet size and scale of operations at the expiry of the charters. See "Lease Commitments" in the Management Discussion and Analysis section of this Interim Report.

### **Dividend**

The Board has declared an interim dividend per share of HK 45 cents. This payout, which is greater than the Group's entire dividend payment for 2006, recognises our healthy balance sheet and positive market outlook. Details of the closure of the register of members are given in the Other Information section of this Interim Report.

Following the payment of the 2007 interim dividend, the Group will still have distributable profits of over US\$172.7 million, available to be invested in the Group's expansion.

### **Board Changes**

As anticipated in our 2006 Annual Report, our Chairman, Mr. Christopher Buttery, wishes to reduce his executive duties. Therefore, with effect from 1 January 2008, Mr. Buttery will give up the role of executive Chairman and instead become non-executive Deputy Chairman replacing Mr. Daniel Bradshaw who has kindly agreed to continue as a non-executive Director. With effect from the same date, Mr. David Turnbull is appointed Chairman in addition to his role as independent non-executive Director. Mr. Turnbull was previously Chairman of Swire Pacific Limited and Cathay Pacific Limited, and is currently an executive Director of Allco Finance Group, a structured asset finance and fund management business listed on the Australian Stock Exchange. Pacific Basin thus retains these directors' combined experience in Asian business and in shipping as the Group positions itself for the next stage of its development.

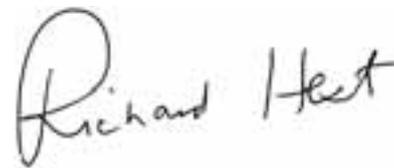
### **Outlook and Prospects**

Sentiment in the dry bulk markets has seen a marked improvement since the end of 2006, with seemingly healthy economic conditions in both developed and emerging economies. If there has been any surprise, it has been on the upside. For our business, this is well reflected in the increased earnings and values of our fleet.

The absence of convincing signs that demand for raw materials will slow in the near to mid term gives us cause to maintain our positive market outlook. Furthermore, the root causes of the congestion which has had such an effect on rates lately, namely insufficient shoreside and inland infrastructure, will require some years of investment to remedy. On the supply side, whilst we maintain a close eye on the increasing dry bulk orderbook, we note that yards are already fully booked for 2007-2008 and for much of 2009. Meanwhile, the fleet growth in our core handysize sector should be more measured than in any other dry bulk sector due to the relatively low orderbook and high average vessel age.

Nevertheless, recognising the volatile nature of the shipping market, we continue to set a prudent balance when it comes to locking in forward earnings cover for our fleet.

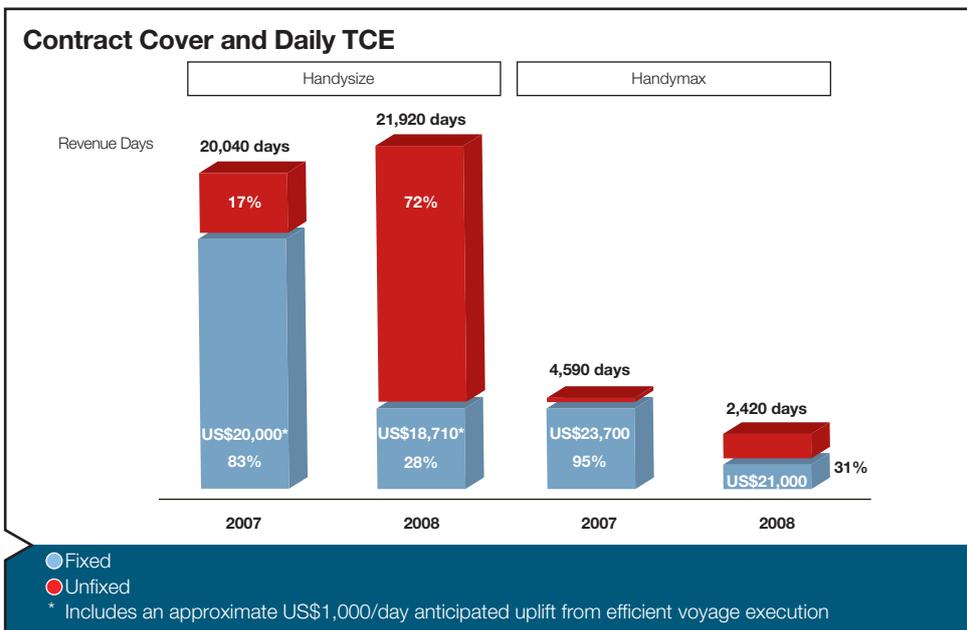
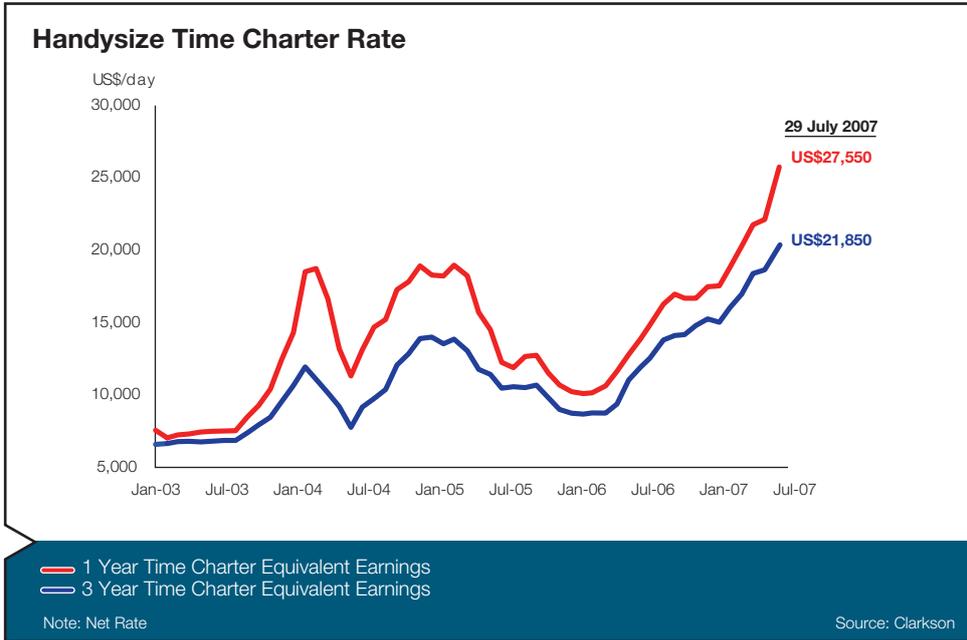
We expect demand for dry bulk tonnage to continue growing strongly over the next few years, with a positive effect on our business. Our business model, executed by a talented staff, is well tested but continually evolving to meet the changing needs of our customers, including the world's largest commodities companies. Efforts to broaden our range of services are now beginning to show encouraging results, helping to strengthen Pacific Basin for the benefit of our shareholders.



**Richard M. Hext**  
*Chief Executive Officer*

Hong Kong, 7 August 2007





Shareholders and investors are reminded that this Interim Report for the six months ended 30 June 2007 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.



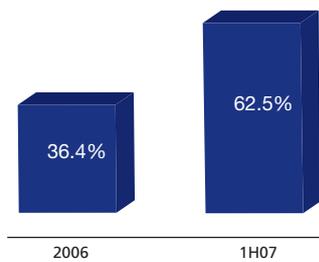
## Management Discussion and Analysis

**D**uring the six months ended 30 June 2007, turnover was US\$455.4 million (2006: US\$239.4 million), up 90.2%. Time charter equivalent earnings and ship management income were US\$269.2 million (2006: US\$140.4 million), up 91.7%. Net profit before gains on disposal of property, plant and equipment was US\$112.7 million (2006: US\$36.4 million), up 209.6%. Net profit attributable to shareholders was US\$162.9

million (2006: US\$36.4 million), up 347.5%. The increase in net profit was mainly due to higher daily charter rates, an increase in the number of vessels controlled in the fleet and increased gains on disposal of vessels. Return on average equity of US\$521.7 million (31 December 2006: US\$303.0 million) was 62.5% during the six months ended 30 June 2007 (FY 2006: 36.4%) as shown in the graph beside:

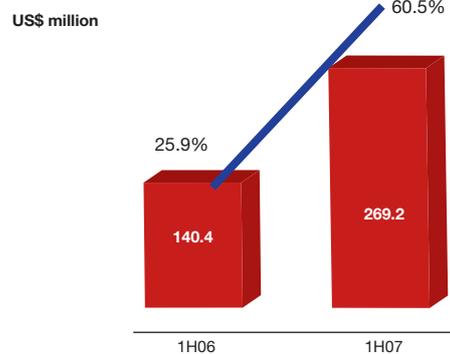


### Annualised Return on Average Equity Employed during the Period



Annualised Return on Average Equity Employed during the period

### Time Charter Equivalent Earnings Versus Net Profit Margin



● Time Charter Equivalent Earnings  
○ Net Profit Margin

## INCOME

The Group's owned and chartered fleet generated US\$450.7 million (2006: US\$232.8 million) or 99.0% (2006: 97.2%) of turnover and the remaining 1.0% was derived from commercial and technical management services for third party vessels and marine services businesses. Turnover is shown gross of voyage-related expenses, amounts payable to other pool members (based on the number of pool points attributable to their vessels) and changes in the fair value of bunker swap and forward contracts. Voyage-related expenses related primarily to commissions, bunkers, port-related costs and hire expenses of short term chartered vessels.

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

| US\$ million                                    | Handysize    | Handymax    | Management income | Total        |
|---|--------------|-------------|-------------------|--------------|
| <b>During the six months ended 30 June 2006</b> | <b>109.9</b> | <b>23.9</b> | <b>6.6</b>        | <b>140.4</b> |
| Change in number of revenue days                | 29.1         | 12.6        | —                 | 41.7         |
| Change in daily charter rates                   | 59.7         | 29.3        | —                 | 89.0         |
| Other   | —            | —           | (1.9)             | (1.9)        |
| <b>During the six months ended 30 June 2007</b> | <b>198.7</b> | <b>65.8</b> | <b>4.7</b>        | <b>269.2</b> |

The table below shows the handysize and handymax performance during the period:

|                                     | Six months ended 30 June |               |          |
|-------------------------------------|--------------------------|---------------|----------|
|                                     | 2006                     | 2007          | % Change |
| <b>Handysize</b>                    |                          |               |          |
| Revenue days                        | 7,570                    | <b>9,590</b>  | +27%     |
| Daily charter rates (US\$)          | 14,400                   | <b>19,750</b> | +37%     |
| Daily vessel operating costs (US\$) | 8,540                    | <b>9,370</b>  | +10%     |
| <b>Handymax</b>                     |                          |               |          |
| Revenue days                        | 1,320                    | <b>2,260</b>  | +71%     |
| Daily charter rates (US\$)          | 15,690                   | <b>25,180</b> | +60%     |
| Daily vessel operating costs (US\$) | 17,710                   | <b>20,580</b> | +16%     |

Note: The above handymax performance excludes the Xiamen Sea and the Xiamen Sky which are on long term charter at a daily rate of US\$8,460 whilst the daily vessel cost is US\$8,540.

## DIRECT COSTS

Direct costs during the six months ended 30 June 2007 were US\$135.6 million (2006: US\$84.9 million). The bulk of the increase was represented by vessel charter-hire expenses for vessels under operating leases which increased to US\$80.0 million (2006: US\$42.2 million) reflecting a 47.6% rise in the average number of vessels chartered under operating leases, and the 27.4% increase in the average daily charter rate.

Depreciation expenses increased to US\$18.7 million (2006: US\$14.3 million) primarily due to the increase in the average number of owned vessels from 32 to 37.

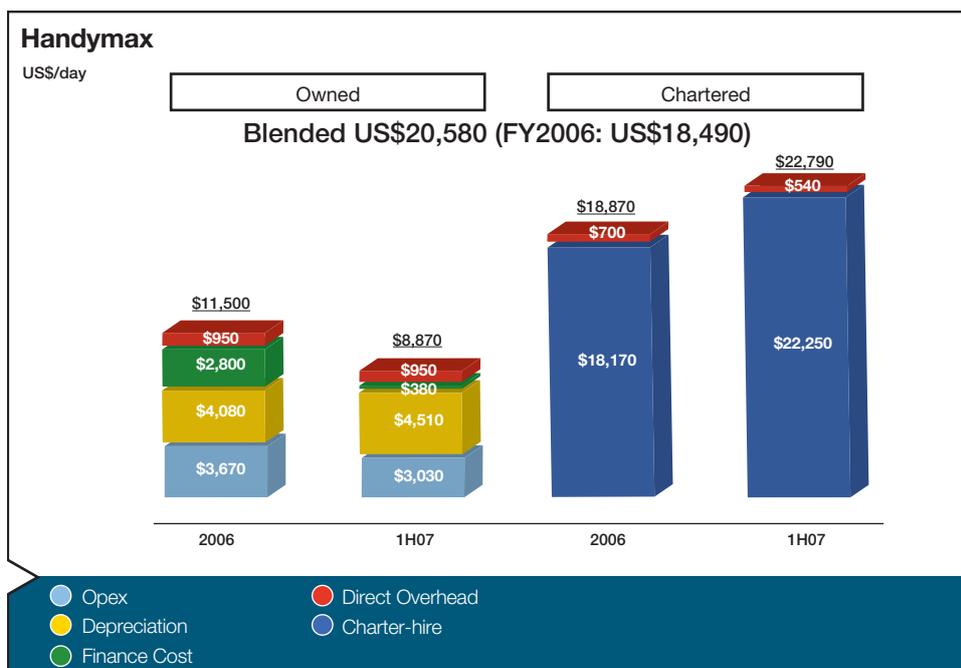
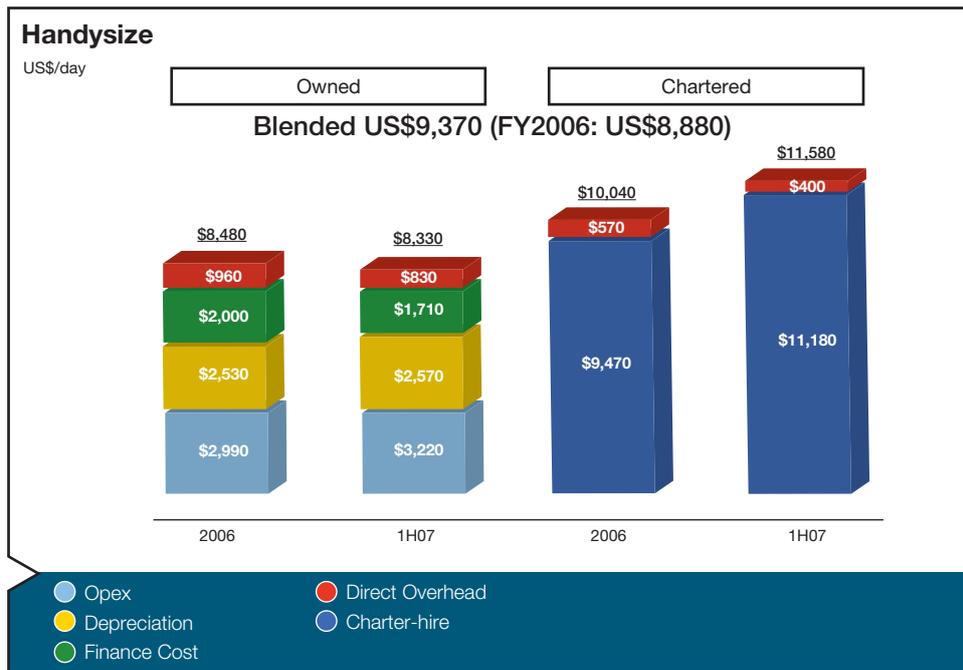
Vessel operating costs for owned and finance leased vessels increased to US\$22.8 million (2006:

US\$16.8 million). This was mainly due to the increase in the average number of owned vessels, the increase in crew wages and higher costs of lubricants.

Direct costs also include the cost of marine services, and an overhead allocation of US\$13.1 million (2006: US\$10.7 million) representing shore based staff costs, office and related expenses directly attributable to the management of the owned and chartered fleet and the generation of marine services businesses.

Blended vessel daily operating costs for handysize was US\$9,370 (FY 2006: US\$8,880), an increase of 5.5% over the previous year, and for handymax was US\$20,580 (FY 2006: US\$18,490), an

increase of 11.3% over the previous year. Blended vessel daily operating costs can be analysed between owned and chartered costs as follows:



Revenue days and vessel days can be analysed as follows:

|              | Six months ended 30 June |              |              |                     |                     |                     |
|--------------|--------------------------|--------------|--------------|---------------------|---------------------|---------------------|
|              | 2006                     |              |              | 2007                |                     |                     |
|              | Owned                    | Chartered    | Total        | Owned               | Chartered           | Total               |
| Handysize    |                          |              |              |                     |                     |                     |
| Vessel days  | 5,710                    | 1,930        | 7,640        | <b>6,620</b>        | <b>3,120</b>        | <b>9,740</b>        |
| Drydocking   | (70)                     | –            | (70)         | <b>(140)</b>        | –                   | <b>(140)</b>        |
| Off-hire     | –                        | –            | –            | <b>(10)</b>         | –                   | <b>(10)</b>         |
| Revenue days | <u>5,640</u>             | <u>1,930</u> | <u>7,570</u> | <u><b>6,470</b></u> | <u><b>3,120</b></u> | <u><b>9,590</b></u> |
| Handymax     |                          |              |              |                     |                     |                     |
| Vessel days  | –                        | 1,320        | 1,320        | <b>360</b>          | <b>1,900</b>        | <b>2,260</b>        |
| Drydocking   | –                        | –            | –            | –                   | –                   | –                   |
| Off-hire     | –                        | –            | –            | –                   | –                   | –                   |
| Revenue days | <u>–</u>                 | <u>1,320</u> | <u>1,320</u> | <u><b>360</b></u>   | <u><b>1,900</b></u> | <u><b>2,260</b></u> |

The off-hire for the total fleet of owned vessels represented 0.5 (2006: Nil) days per vessel per year.

### **GAINS ON DISPOSAL OF PROPERTY, PLANT AND EQUIPMENT**

Gains on disposal of property, plant and equipment totalled US\$50.2 million (2006: Nil). The Group sold and leased back six of its vessels and sold one of its vessels. Proceeds from the sale of US\$176.0 million were used to repay bank borrowings on these vessels, to prepay other bank debts, to fund investments and to satisfy general working capital requirement. In accordance with HKAS 17 “Leases”, operating lease accounting has been adopted for these transactions with the vessels being treated as sold, the gains or losses on disposal being recognised immediately, and subsequent charter-hire payments being recognised as expenses.

### **OTHER OPERATING INCOME**

Movements in the fair value of receipts from forward freight agreements amounted to US\$13.6 million (2006: US\$4.6 million).

The Group invested in the shares of other listed shipping companies which are held as current assets. Increases in the fair value and gains from the sale of these financial assets amounted to US\$11.3 million (2006: Nil).

In addition, finance lease and bank interest income amounted to US\$2.4 million (2006: US\$1.9 million).

### **OTHER OPERATING EXPENSES**

Movements in the fair value of payments for forward freight agreements amounted to US\$35.0 million (2006: US\$8.7 million). Taking into account the movements in fair value of receipts of US\$13.6 million as shown above, the net movements in the fair value of forward freight agreements was a charge of US\$21.4 million (2006: US\$4.1 million).

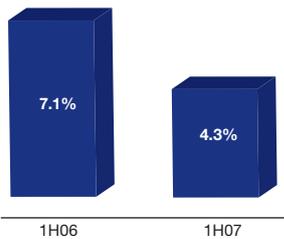
## GENERAL AND ADMINISTRATIVE EXPENSES

The Group's total administrative expenses of US\$19.5 million (2006: US\$16.9 million) consisted of shore based overhead costs of US\$13.1 million (2006: US\$10.7 million) included as part of direct expenses, and general and administrative expenses of US\$6.4 million (2006: US\$6.2 million). The increase was largely due to the increase

in the number of staff directly involved in the management of the expanded fleet.

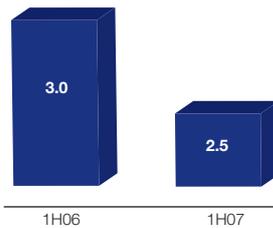
Total administrative expenses as a percentage of turnover decreased from 7.1% to 4.3%. In addition, the number of full time shore based staff per owned, chartered and managed vessel decreased from 3.0 to 2.5. This excludes the staff who are engaged in the provision of surveying and consulting services and not in the management of these vessels.

**Administrative Expenses as a Percentage of Turnover**



Administrative Expenses as a Percentage of Turnover

**Number of Full Time Shore Based Staff per Vessel**



Number of Full Time Shore Based Staff per Vessel

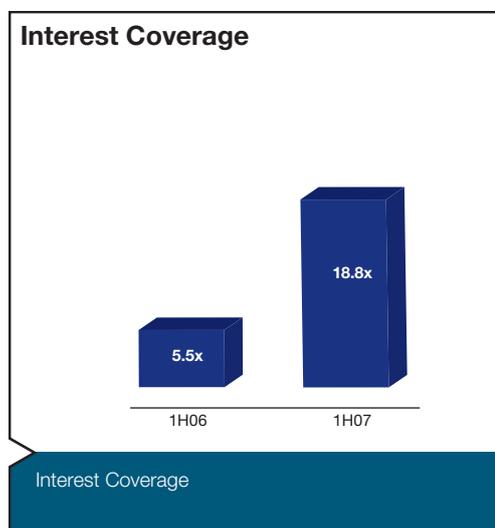


## SHARE OF PROFITS LESS LOSSES OF JOINTLY CONTROLLED ENTITIES

The Group's share of profits less losses of jointly controlled entities totalled US\$3.6 million (2006: US\$1.5 million). This mainly represented the share of results of a jointly controlled vessel, the "Captain Corelli" of US\$1.4 million (2006: US\$0.8 million), and Fujairah Bulk Shipping L.L.C., a jointly controlled business involved in the shipping of aggregates in the Middle East of US\$2.1 million (2006: US\$0.5 million).

## FINANCING

Finance costs of US\$10.2 million (2006: US\$11.6 million) included interest payments of US\$1.2 million (2006: US\$0.5 million) in relation to bank borrowings used to finance the Group's owned vessels and finance charges of US\$10.1 million (2006: US\$10.6 million) in relation to vessels under finance lease arrangements.



## INTEREST PAYMENTS ON BANK BORROWINGS

The increase in interest payments on bank borrowings of US\$0.7 million was primarily due to the increase in the average bank borrowings outstanding to US\$37.7 million during the six months ended 30 June 2007 (2006: US\$16.6 million). The bank borrowings' interest cost amounted to approximately US\$280 per day for the owned vessels during the six months ended 30 June 2007 (2006: US\$190). The average interest rate after hedging on bank borrowings was approximately 5.8% for the period (2006: 5.9%).

## FINANCE CHARGES

Finance charges of US\$10.1 million (2006: US\$10.6 million) represented interest payments on finance lease liabilities used to finance the Group's finance leased vessels. During the second half of 2005, the Group sold and bareboat leased back 17 of its vessels for periods of 10 to 12 years. Finance lease accounting has been adopted for these transactions so the balance sheet shows the net carrying value of these vessels, and the current and long term liabilities in aggregate include finance lease liabilities of US\$294.0 million. The fixed equal quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities in the balance sheet and finance charges in the income statement. The finance charges for the finance lease vessels amounted to approximately US\$3,290 per day during the six months ended 30 June 2007 (2006: US\$3,450). 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% during the period (2006: 6.7%).

## TAX

Shipping income is not subject to taxation according to the tax regulation prevailing in the countries in which the Group operates.

## CASHFLOW

At 30 June 2007, the Group had net working capital of US\$101.1 million excluding finance lease liabilities and bank loans repayable within one year of US\$30.7 million and US\$8.1 million respectively. The primary sources of liquidity comprised

bank balances and cash of US\$83.3 million and unutilised committed and secured bank borrowing facilities of US\$120.0 million. The Group's primary liquidity needs are to fund general working capital requirements (including lease and other short term financing commitments), fleet expansion and other capital expenditure.

| US\$ million  | Six months ended 30 June |                |
|---|--------------------------|----------------|
|   | 2006                     | 2007           |
| Net cash from operating activities                                  | 57.3                     | <b>131.3</b>   |
| – Purchase of property, plant and equipment                         | (97.5)                   | <b>(167.6)</b> |
| – Sale of property, plant and equipment                             | –                        | <b>176.0</b>   |
| – Purchase of financial assets at fair value through profit or loss | –                        | <b>(37.8)</b>  |
| – Sale of financial assets at fair value through profit or loss     | –                        | <b>3.8</b>     |
| – Others  | 6.1                      | <b>1.5</b>     |
| Net cash used in investing activities                               | (91.4)                   | <b>(24.1)</b>  |
| – Net drawdown/(repayment) of borrowings                            | 71.0                     | <b>(23.0)</b>  |
| – Repayment of finance leases liabilities                           | (7.4)                    | <b>(7.9)</b>   |
| – Payment of interest and other finance charges                     | (11.2)                   | <b>(10.2)</b>  |
| – Payment of dividends  | (58.1)                   | <b>(45.0)</b>  |
| – Others  | 0.2                      | <b>(1.1)</b>   |
| Net cash used in financing activities                               | (5.5)                    | <b>(87.2)</b>  |
| Cash at 30 June   | 42.5                     | <b>83.3</b>    |

## **FINANCIAL INSTRUMENTS**

The Group is exposed to fluctuations in interest rates, bunker prices, freight rates and foreign currencies in relation to contracts designated in foreign currencies. The Group manages these exposures by way of interest rate swap contracts, bunker swap and forward contracts, forward freight agreements, and forward foreign exchange contracts respectively. Further details are included in Note 5 and Note 11 to the unaudited condensed consolidated interim financial statements of this Interim Report.

At 30 June 2007, the forward foreign exchange contracts and one of the interest rate swap contracts qualified as cashflow hedges. Accordingly, the change in the fair value of these instruments during the period then ended was recognised directly in hedging reserve.

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



the current period as part of the 2007 unrealised non-cash charge of US\$6.3 million whereas the cashflows of these contracts will occur in future reporting periods.

expenses of US\$6.3 million. This resulted in a total charge for the period of US\$14.4 million. These are further analysed as follows:

During the six months ended 30 June 2007, the Group recognised net realised derivative expenses of US\$8.1 million and net unrealised derivative

| US\$ million                        | Six months ended 30 June |               |               | 2007          |
|-------------------------------------|--------------------------|---------------|---------------|---------------|
|                                     | 2006                     | Realised      | Unrealised    |               |
| <b>Income</b>                       |                          |               |               |               |
| – Interest rate swap contracts      | 0.5                      | –             | 1.2           | 1.2           |
| – Bunker swap and forward contracts | 5.2                      | 1.4           | 6.2           | 7.6           |
| – Forward freight agreements        | 4.6                      | 6.1           | 7.5           | 13.6          |
|                                     | <u>10.3</u>              | <u>7.5</u>    | <u>14.9</u>   | <u>22.4</u>   |
| <b>Expenses</b>                     |                          |               |               |               |
| – Interest rate swap contracts      | (0.8)                    | –             | –             | –             |
| – Bunker swap and forward contracts | (1.7)                    | (1.4)         | (0.4)         | (1.8)         |
| – Forward freight agreements        | (8.7)                    | (14.2)        | (20.8)        | (35.0)        |
|                                     | <u>(11.2)</u>            | <u>(15.6)</u> | <u>(21.2)</u> | <u>(36.8)</u> |
| <b>Net</b>                          |                          |               |               |               |
| – Interest rate swap contracts      | (0.3)                    | –             | 1.2           | 1.2           |
| – Bunker swap and forward contracts | 3.5                      | –             | 5.8           | 5.8           |
| – Forward freight agreements        | (4.1)                    | (8.1)         | (13.3)        | (21.4)        |
|                                     | <u>(0.9)</u>             | <u>(8.1)</u>  | <u>(6.3)</u>  | <u>(14.4)</u> |

## INDEBTEDNESS

The indebtedness of the Group comprised finance lease liabilities of US\$294.0 million and bank borrowings of US\$25.5 million, of which US\$30.7 million and US\$8.1 million respectively represented the current portion that were repayable within one year from the balance sheet date.

Finance lease liabilities decreased to US\$294.0 million (31 December 2006: US\$302.0 million) as a result of repayments during the period. Bank borrowings decreased to US\$25.5 million (31 December 2006: US\$48.5 million) as a result of

the Group's repayment and prepayment of bank borrowings following the sale and charter back of vessels during the period.

At 30 June 2007, all outstanding finance lease liabilities will expire between 2015 and 2017 and all outstanding secured bank borrowings will expire in 2014.

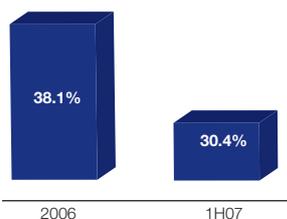
The Group's bank borrowings were secured by mortgages over 6 vessels with a total net book value of US\$128.8 million and an assignment of earnings and insurances in respect of these vessels.

After the balance sheet date, the Group exercised one of the finance lease purchase options for the delivery of one handysize vessel by the end of August 2007. Upon the exercise of the finance lease purchase option, the Group sold and chartered back the vessel for approximately three years under an operating lease. This transaction would reduce our finance lease liabilities by US\$15.2 million and increase our lease commitment.

The Group had unutilised committed bank borrowing facilities of US\$120.0 million available to finance the Group's newbuilding commitments and other vessel acquisitions.

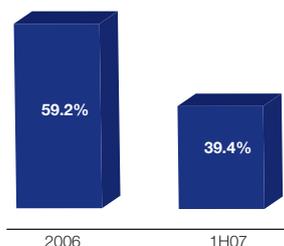
The Group's gearing ratio expressed as borrowings and finance lease liabilities, net of cash, as a percentage of property, plant and equipment (based on net book values) and vessel finance lease receivables was 30.4% (31 December 2006: 38.1%).

**Net Borrowings to Book Value of Property, Plant and Equipment**



Net Borrowings to Book Value of Property, Plant and Equipment

**Net Borrowings to Shareholders' Equity**



Net Borrowings to Shareholders' Equity



## LEASE COMMITMENTS

Lease commitments include vessels chartered by the Group directly and by the IHC and IHX Pools. Operating lease commitments stood at US\$469.9 million (31 December 2006: US\$285.1 million). These commitments excluded vessels under finance leases which were included as part

of property, plant and equipment. The increase was mainly due to higher average daily rates of the vessels under operating leases and an average increase of 14 chartered vessels during the period. Of these commitments, US\$298.6 million related to handysize vessels and US\$171.3 million related to handymax vessels, as follows:

| Lease Commitments (US\$ million) | Not later than one year | Later than one year but not later than five years | Later than five years | Total |
|----------------------------------|-------------------------|---|-----------------------|-------|
| PB Handysize                     | 101.4                   | 169.4   | 16.8                  | 287.6 |
| IHC Pool                         | 11.0                    | –   | –                     | 11.0  |
| Handysize subtotal               | 112.4                   | 169.4   | 16.8                  | 298.6 |
| PB Handymax                      | 70.8                    | 50.5  | –                     | 121.3 |
| IHX Pool                         | 50.0                    | –   | –                     | 50.0  |
| Handymax subtotal                | 120.8                   | 50.5  | –                     | 171.3 |
| Total                            | 233.2                   | 219.9   | 16.8                  | 469.9 |

| Lease Commitments (days) | Not later than one year | Later than one year but not later than five years | Later than five years | Total  |
|--------------------------|-------------------------|---|-----------------------|--------|
| PB Handysize             | 8,390                   | 15,590  | 1,930                 | 25,910 |
| IHC Pool                 | 430                     | –   | –                     | 430    |
| Handysize subtotal       | 8,820                   | 15,590  | 1,930                 | 26,340 |
| PB Handymax              | 3,440                   | 2,700   | –                     | 6,140  |
| IHX Pool                 | 1,300                   | –   | –                     | 1,300  |
| Handymax subtotal        | 4,740                   | 2,700   | –                     | 7,440  |
| Total                    | 13,560                  | 18,290  | 1,930                 | 33,780 |

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

The average daily charter rates and total number of vessel days of our PB handysize and PB handymax vessels under operating leases and

finance leases in each year, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements, are as follows:

| Year  | PB Handysize<br>Operating leases |                | PB Handysize<br>Finance leases  |                | PB Handymax<br>Operating leases |                |
|-------|----------------------------------|----------------|---------------------------------|----------------|---------------------------------|----------------|
|       | Average<br>daily rate<br>(US\$)  | Vessel<br>days | Average<br>daily rate<br>(US\$) | Vessel<br>days | Average<br>daily rate<br>(US\$) | Vessel<br>days |
| 2007  | 11,900                           | 4,230          | 5,900                           | 3,130          | 21,200                          | 2,120          |
| 2008  | 12,000                           | 7,700          | 5,800                           | 6,210          | 18,500                          | 2,070          |
| 2009  | 11,600                           | 5,950          | 5,800                           | 6,210          | 17,200                          | 1,350          |
| 2010  | 10,300                           | 3,600          | 5,800                           | 6,210          | 24,900                          | 600            |
| 2011  | 8,800                            | 1,830          | 5,800                           | 6,220          | –                               | –              |
| 2012  | 8,800                            | 1,230          | 5,800                           | 6,210          | –                               | –              |
| 2013  | 8,800                            | 730            | 5,800                           | 6,210          | –                               | –              |
| 2014  | 8,400                            | 360            | 5,800                           | 6,210          | –                               | –              |
| 2015  | 8,400                            | 280            | 5,800                           | 3,240          | –                               | –              |
| 2016  | –                                | –              | 6,000                           | 1,830          | –                               | –              |
| 2017  | –                                | –              | 5,800                           | 610            | –                               | –              |
| Total |                                  | 25,910         |                                 | 52,290         |                                 | 6,140          |

Certain lease agreements provide the Group with the option to purchase the related vessels at predetermined times and exercise prices during the lease periods. 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:

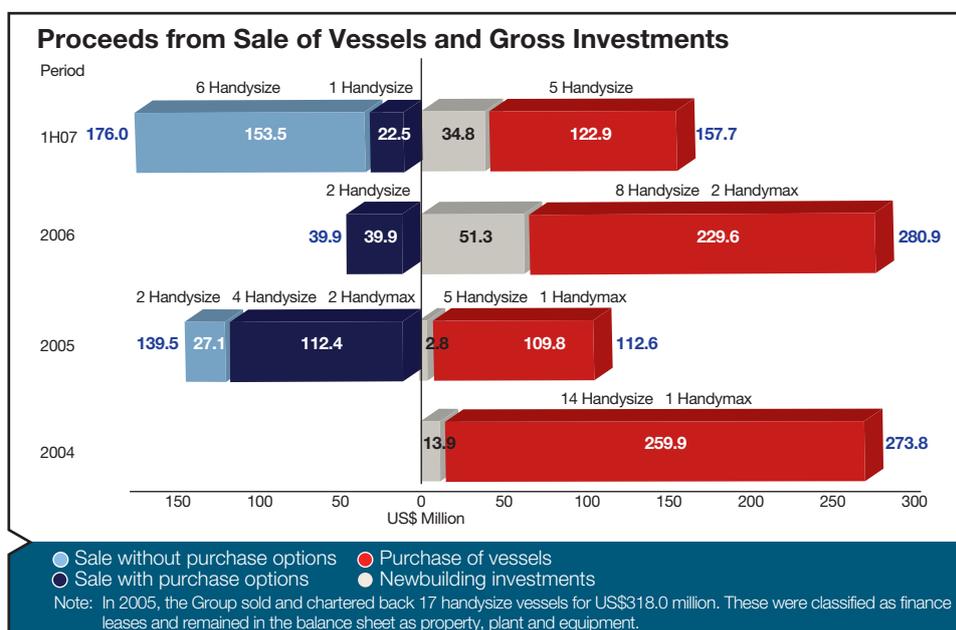
| Earliest year<br>in which<br>options may<br>be exercised | Vessel<br>type | Number of vessels at 30 June 2007 |                 | Average age<br>of vessels<br>(years) | Average option<br>exercise price<br>(US\$ million) |
|--|----------------|-----------------------------------|-----------------|--------------------------------------|--|
|  |                | Finance lease                     | Operating lease |                                      |  |
| 2007   | Handysize      | 17                                | 2               | 5                                    | 17.5   |
| 2008   | Handysize      | –                                 | 4               | 6                                    | 21.1   |
| 2009   | Handysize      | –                                 | 3               | 3                                    | 22.1   |
|  | Handymax       | –                                 | 1               | 5                                    | 17.7   |
| 2010   | Handysize      | –                                 | 1               | 3                                    | 22.5   |
|  | Handymax       | –                                 | 1               | 5                                    | 17.7   |
| Total  |                | 17                                | 12              |                                      |  |

After the balance sheet date, the Group exercised one of the finance lease purchase options for the delivery of one handysize vessel by the end of August 2007.

## CAPITAL EXPENDITURE, PROPERTY, PLANT AND EQUIPMENT AND COMMITMENTS

During the six months ended 30 June 2007,

capital expenditure, mainly comprised five handysize acquisitions and instalments on six newbuildings, amounted to US\$167.6 million. This included capitalised expenditure on drydocking of US\$3.6 million. Cash used for the purchase of vessels and proceeds from the sale of vessels can be illustrated in the graph "Proceeds from Sale of Vessels and Gross Investments" below.



At 30 June 2007, the Group had property, plant and equipment of US\$763.5 million, of which US\$675.6 million related to 37 delivered vessels with an average net book value of US\$18.3 million per vessel.

The Group had non-cancellable commitments of US\$225.3 million for the construction of 11 handysize vessels and 1 handymax vessel. These vessels are for delivery to the Group between November 2007 and September 2009.

| Capital Commitments (US\$ million) | 2007        | 2008         | 2009        | Total        |
|------------------------------------|-------------|--------------|-------------|--------------|
| 11 handysize newbuilding vessels   | 50.3        | 89.6         | 53.3        | 193.2        |
| 1 handymax newbuilding vessel      | —           | 32.1         | —           | 32.1         |
|                                    | <u>50.3</u> | <u>121.7</u> | <u>53.3</u> | <u>225.3</u> |

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

### **DIRECTORS' OPINION ON THE WORKING CAPITAL AVAILABLE TO THE GROUP**

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

### **STAFF**

At 30 June 2007, the Group employed a total of 266 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, Melbourne and Auckland. The largest office is in Hong Kong with 149 employees.

The Group incurred total staff costs of approximately US\$14.7 million during the six months ended 30 June 2007 (2006: US\$12.7 million), representing 3.2% of the Group's turnover for the period (2006: 5.3%).

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

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

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

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

# Unaudited Condensed Consolidated Balance Sheet

|   | Note | 30 June<br>2007<br>US\$'000 | 31 December<br>2006<br>US\$'000 |
|---|------|-----------------------------|---------------------------------|
| <b>Non-current assets</b>                             |      |                             |                                 |
| Property, plant and equipment                         | 4    | <b>763,548</b>              | 741,014                         |
| Land use rights                                       |      | <b>423</b>                  | 427                             |
| Goodwill  |      | <b>25,256</b>               | 25,256                          |
| Interests in jointly controlled entities              |      | <b>20,143</b>               | 15,299                          |
| Derivative assets                                     | 5    | <b>731</b>                  | 11                              |
| Trade and other receivables                           | 6    | <b>11,303</b>               | 11,968                          |
|   |      | <b>821,404</b>              | 793,975                         |
| <b>Current assets</b>                                 |      |                             |                                 |
| Inventories   |      | <b>19,144</b>               | 15,643                          |
| Derivative assets                                     | 5    | <b>15,757</b>               | 1,481                           |
| Financial assets at fair value through profit or loss |      | <b>45,658</b>               | –                               |
| Trade and other receivables                           | 6    | <b>51,021</b>               | 45,554                          |
| Bank balances and cash                                |      | <b>83,251</b>               | 63,242                          |
|   |      | <b>214,831</b>              | 125,920                         |
| <b>Current liabilities</b>                            |      |                             |                                 |
| Derivative liabilities                                | 5    | <b>34,853</b>               | 11,209                          |
| Trade and other payables                              | 7    | <b>77,554</b>               | 69,894                          |
| Current portion of long term borrowings               | 8    | <b>38,790</b>               | 23,881                          |
| Taxation payable                                      |      | <b>1,357</b>                | 1,698                           |
|   |      | <b>152,554</b>              | 106,682                         |
| Net current assets                                    |      | <b>62,277</b>               | 19,238                          |
| Total assets less current liabilities                 |      | <b>883,681</b>              | 813,213                         |
| <b>Non-current liabilities</b>                        |      |                             |                                 |
| Derivative liabilities                                | 5    | <b>3,375</b>                | 1,636                           |
| Long term borrowings                                  | 8    | <b>280,776</b>              | 326,584                         |
|   |      | <b>284,151</b>              | 328,220                         |
| Net assets  |      | <b>599,530</b>              | 484,993                         |
| <b>Equity</b>   |      |                             |                                 |
| Share capital   | 9    | <b>156,908</b>              | 155,785                         |
| Retained profits                                      |      | <b>263,018</b>              | 145,048                         |
| Other reserves  |      | <b>179,604</b>              | 184,160                         |
| Total equity  |      | <b>599,530</b>              | 484,993                         |

# Unaudited Condensed Consolidated Income Statement

|  | Note  | Six months ended 30 June |                  |
|--|-------|--------------------------|------------------|
|  |       | 2007<br>US\$'000         | 2006<br>US\$'000 |
| Turnover   | 3     | <b>455,361</b>           | 239,440          |
| Bunkers, port disbursements, other charges and amounts payable to other pool members | 3     | <b>(186,132)</b>         | (99,043)         |
| Time charter equivalent earnings   | 3     | <b>269,229</b>           | 140,397          |
| Direct costs   | 10    | <b>(135,579)</b>         | (84,874)         |
| General and administrative expenses  |       | <b>(6,369)</b>           | (6,241)          |
| Other operating income   |       | <b>27,337</b>            | 6,518            |
| Other operating expenses   |       | <b>(35,336)</b>          | (8,757)          |
| Gains on disposal of property, plant and equipment                                   |       | <b>50,247</b>            | –                |
| Operating profit   | 11    | <b>169,529</b>           | 47,043           |
| Finance costs  | 12    | <b>(10,244)</b>          | (11,625)         |
| Share of profits less losses of jointly controlled entities                          |       | <b>3,552</b>             | 1,463            |
| Profit before taxation   |       | <b>162,837</b>           | 36,881           |
| Taxation   | 13    | <b>97</b>                | (496)            |
| Profit attributable to shareholders  |       | <b>162,934</b>           | 36,385           |
| Dividends  | 14    | <b>90,334</b>            | 33,443           |
| Basic earnings per share   | 15(a) | <b>US 10.43 cents</b>    | US 2.83 cents    |
| Diluted earnings per share   | 15(b) | <b>US 10.36 cents</b>    | US 2.81 cents    |

## Unaudited Condensed Consolidated Statement of Changes in Equity

|  | Share<br>capital<br>US\$'000 | Share<br>premium<br>US\$'000 | Merger<br>reserve<br>US\$'000 | Staff<br>benefits<br>reserve<br>US\$'000 | Hedging<br>reserve<br>US\$'000 | Exchange<br>reserve<br>US\$'000 | Retained<br>profits<br>US\$'000 | Total<br>US\$'000 |
|--|------------------------------|------------------------------|-------------------------------|--|--------------------------------|---------------------------------|---------------------------------|-------------------|
| <b>Balance at 1 January 2007</b>   | 155,785                      | 245,517                      | (56,606)                      | (436)                                    | (4,333)                        | 18                              | 145,048                         | 484,993           |
| Currency translation differences   | –                            | –                            | –                             | –  | –                              | 46                              | –                               | 46                |
| Fair value losses of cash flow hedges  | –                            | –                            | –                             | –  | (3,859)                        | –                               | –                               | (3,859)           |
| Net loss recognised directly in equity   | –                            | –                            | –                             | –  | (3,859)                        | 46                              | –                               | (3,813)           |
| Shares issued upon exercise<br>of share options (Note 9)   | 303                          | 994                          | –                             | (326)                                    | –                              | –                               | –                               | 971               |
| Shares purchased by trustee of the<br>LTIS (Note 9)  | (2,033)                      | –                            | –                             | –  | –                              | –                               | –                               | (2,033)           |
| Shares transferred to employees upon<br>granting of restricted share awards<br>(Note 9)            | 2,033                        | –                            | –                             | (2,033)                                  | –                              | –                               | –                               | –                 |
| Shares issued and transferred to<br>employees upon granting of<br>restricted share awards (Note 9) | 825                          | –                            | –                             | (825)                                    | –                              | –                               | –                               | –                 |
| Shares transferred back to trustee<br>upon lapse of restricted share<br>awards (Note 9)            | (5)                          | –                            | –                             | 5  | –                              | –                               | –                               | –                 |
| Profit attributable to shareholders  | –                            | –                            | –                             | –  | –                              | –                               | 162,934                         | 162,934           |
| Share-based compensation   | –                            | –                            | –                             | 1,442                                    | –                              | –                               | –                               | 1,442             |
| Dividends paid (Note 14)   | –                            | –                            | –                             | –  | –                              | –                               | (44,964)                        | (44,964)          |
| <b>Balance at 30 June 2007</b>   | 156,908                      | 246,511                      | (56,606)                      | (2,173)                                  | (8,192)                        | 64                              | 263,018                         | 599,530           |
| <b>Balance at 1 January 2006</b>   | 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<br>directly in equity  | –                            | –                            | –                             | –  | 415                            | 38                              | –                               | 453               |
| Shares issued upon exercise<br>of share options  | 508                          | 1,674                        | –                             | (546)                                    | –                              | –                               | –                               | 1,636             |
| Shares purchased by<br>trustee of the LTIS   | (1,217)                      | –                            | –                             | –  | –                              | –                               | –                               | (1,217)           |
| Shares transferred to employees upon<br>granting of restricted share awards                        | 1,365                        | –                            | –                             | (1,365)                                  | –                              | –                               | –                               | –                 |
| Shares transferred back to trustee<br>upon lapse of restricted share awards                        | (60)                         | –                            | –                             | 60                                       | –                              | –                               | –                               | –                 |
| Profit attributable to shareholders  | –                            | –                            | –                             | –  | –                              | –                               | 36,385                          | 36,385            |
| Share-based compensation   | –                            | –                            | –                             | 1,165                                    | –                              | –                               | –                               | 1,165             |
| Dividends paid (Note 14)   | –                            | –                            | –                             | –  | –                              | –                               | (58,109)                        | (58,109)          |
| <b>Balance at 30 June 2006</b>   | 128,780                      | 112,627                      | (56,606)                      | 1,111                                    | (945)                          | 36                              | 104,584                         | 289,587           |

## Unaudited Condensed Consolidated Cash Flow Statement

|  | <b>Six months ended 30 June</b> |          |
|--|---------------------------------|----------|
|  | <b>2007</b>                     | 2006     |
|  | <b>US\$'000</b>                 | US\$'000 |
| Net cash from operating activities                   | <b>131,349</b>                  | 57,286   |
| Net cash used in investing activities                | <b>(24,137)</b>                 | (91,399) |
| Net cash used in financing activities                | <b>(87,203)</b>                 | (5,506)  |
| Net increase/(decrease) in cash and cash equivalents | <b>20,009</b>                   | (39,619) |
| Cash and cash equivalents at 1 January               | <b>63,242</b>                   | 82,081   |
| Cash and cash equivalents at 30 June                 | <b>83,251</b>                   | 42,462   |

# 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 by the Board of Directors on 7 August 2007.

## 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 2006.

The accounting policies adopted are consistent with those of the annual financial statements for the year ended 31 December 2006. Certain new standards, amendments and interpretations to the published standards (collectively "New Standards") are mandatory for accounting period ending 31 December 2007. However, the adoption of these New Standards does not result in any substantial change to the Group's accounting policies.

## 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 period was as follows:

|  | <b>Six months ended 30 June</b> |          |
|--|---------------------------------|----------|
|  | <b>2007</b>                     | 2006     |
|  | <b>US\$'000</b>                 | US\$'000 |
| Turnover                                       |                                 |          |
| Freight and charter-hire                       | <b>450,701</b>                  | 232,793  |
| Ship management income                         | <b>4,660</b>                    | 6,647    |
|  | <b>455,361</b>                  | 239,440  |
| Bunkers, port disbursements and other charges  | <b>(99,269)</b>                 | (70,060) |
| Charter-hire expenses (Note a)                 | <b>(72,430)</b>                 | (18,484) |
| Amounts payable to other pool members (Note b) | <b>(14,433)</b>                 | (10,499) |
|  | <b>(186,132)</b>                | (99,043) |
| Time charter equivalent earnings               | <b>269,229</b>                  | 140,397  |

(a) Charter-hire expenses were for vessels directly chartered by the IHC Pool and IHX Pool.

(b) Amounts payable to other pool members relate to freight and charter-hire, net of bunkers, port disbursements and other charges of US\$10.3 million (2006: US\$ 7.8 million) and were calculated based on the number of pool points attributable to the vessels participating in the pools owned by the other pool members.

### **3 TURNOVER AND SEGMENT INFORMATION (Continued)**

#### **Primary reporting format – business segments**

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

#### **Secondary reporting format – geographical segments**

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

### **4 CAPITAL EXPENDITURE AND DISPOSAL**

During the period, capital expenditure on vessel additions was US\$167.1 million (2006: US\$97.5 million) and on other property, plant and equipment was US\$0.5 million (2006: US\$1.1 million).

During the period, certain vessels and newbuildings with a net book value of US\$125.8 million were sold, resulting in a net profit of US\$50.2 million.

**5 DERIVATIVE ASSETS AND LIABILITIES**

|   | <b>30 June<br/>2007<br/>US\$'000</b>        | 31 December<br>2006<br>US\$'000             |
|---|---|---|
| <b>Derivative assets</b>  |   |   |
| Cash flow hedge   |   |   |
| Interest-rate swap contract (Note (a)(i))                       | <b>31</b>                                   | –   |
| Derivative assets that do not qualify for hedge accounting      |   |   |
| Interest-rate swap contract (Note (a)(ii))                      | <b>484</b>                                  | –   |
| Bunker swap and forward contracts (Note b)                      | <b>4,131</b>                                | 1,492                                       |
| Forward freight agreements (Note c)                             | <b>11,842</b>                               | –   |
|   | <hr/>                                       | <hr/>                                       |
| Total   | <b>16,488</b>                               | 1,492                                       |
|   | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Less: non-current portion of                                    |   |   |
| Bunker swap and forward contracts (Note b)                      | <b>(396)</b>                                | (11)  |
| Forward freight agreements (Note c)                             | <b>(335)</b>                                | –   |
|   | <hr/>                                       | <hr/>                                       |
|   | <b>(731)</b>                                | (11)  |
|   | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Current portion   | <b>15,757</b>                               | 1,481                                       |
|   | <hr/>                                       | <hr/>                                       |
| <b>Derivative liabilities</b>                                   |   |   |
| Cash flow hedge   |   |   |
| Interest-rate swap contract (Note (a)(i))                       | –   | 780   |
| Forward foreign exchange contracts (Note d)                     | <b>8,223</b>                                | 3,553                                       |
| Derivative liabilities that do not qualify for hedge accounting |   |   |
| Interest-rate swap contract (Note (a)(ii))                      | –   | 728   |
| Bunker swap and forward contracts (Note b)                      | <b>464</b>                                  | 3,870                                       |
| Forward freight agreements (Note c)                             | <b>29,541</b>                               | 3,914                                       |
|   | <hr/>                                       | <hr/>                                       |
| Total   | <b>38,228</b>                               | 12,845                                      |
|   | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Less: non-current portion of                                    |   |   |
| Bunker swap and forward contracts (Note b)                      | <b>(236)</b>                                | (654)                                       |
| Forward freight agreements (Note c)                             | <b>(530)</b>                                | –   |
| Forward foreign exchange contracts (Note d)                     | <b>(2,609)</b>                              | (982)                                       |
|   | <hr/>                                       | <hr/>                                       |
|   | <b>(3,375)</b>                              | (1,636)                                     |
|   | <hr style="border-top: 1px dashed black;"/> | <hr style="border-top: 1px dashed black;"/> |
| Current portion   | <b>34,853</b>                               | 11,209                                      |
|   | <hr/>                                       | <hr/>                                       |

## **5 DERIVATIVE ASSETS AND LIABILITIES (Continued)**

### **(a) Interest-rate swap contracts**

At 30 June 2007 and 31 December 2006, the Group had agreements with a bank to manage the six-month floating rate LIBOR ("6-month Floating Rate") in connection with the Group's long term bank loans, detailed as follows:

- (i) Effective from 2 January 2007, a notional amount of approximately US\$20 million with the 6-month Floating Rate swapped to a fixed rate of approximately 5.6% per annum. This agreement expires in January 2017. This instrument qualifies for hedge accounting. The change in the fair value has been recognised directly in hedging reserve.
- (ii) Effective from 2 January 2007, a notional amount of approximately US\$40 million with the 6-month Floating Rate swapped to a fixed rate of approximately 5.0% per annum so long as the 6-month Floating Rate remains below the agreed cap strike level of 6.0%. This fixed rate switches to a discounted floating rate (discount is approximately 1.0%) for the 6-month fixing period when the prevailing 6-month Floating Rate is above 6.0% and reverts back to the fixed rate should subsequently the 6-month Floating Rate drop below 6.0%. This agreement expires in January 2017.

### **(b) Bunker swap and forward contracts**

At 30 June 2007, the Group had outstanding bunker swap and forward contracts to buy approximately 143,000 (31 December 2006: 137,000) metric tonnes of bunkers, and which expire through March 2010. The commitments were entered into to manage the fluctuations in bunker prices in connection with the Group's long term cargo contract commitments.

### **(c) Forward freight agreements**

At 30 June 2007, the Group had outstanding forward freight agreements to buy approximately 1,286 (31 December 2006: 545) days of the Baltic Supramax Index at prices which range from US\$16,000 to US\$42,750 per day (31 December 2006: US\$16,000 to US\$28,000 per day), and which expire through December 2008. The Group had outstanding forward freight agreements to sell approximately 2,204 (31 December 2006: 1,640) days of the Baltic Supramax Index at prices which range from US\$11,950 to US\$42,500 per day (31 December 2006: US\$11,950 to US\$29,000 per day), and which expire through December 2008. The Group also had outstanding forward freight agreements to sell approximately 828 (31 December 2006: 90) days of the Baltic Handysize Index at prices of US\$20,000 to US\$29,000 per day (31 December 2006: US\$20,000 per day), 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 2007, the Group had outstanding forward foreign exchange contracts with banks to buy approximately JPY 11.2 billion (31 December 2006: JPY 9.1 billion) and simultaneously sell US\$104.3 million (31 December 2006: US\$85.0 million) for the acquisition of certain vessels denominated in Japanese Yen. These contracts expire through July 2009. The change in the fair value has been recognised directly in hedging reserve.

## 6 TRADE AND OTHER RECEIVABLES

|   | <b>30 June<br/>2007<br/>US\$'000</b> | 31 December<br>2006<br>US\$'000 |
|---|--------------------------------------|---------------------------------|
| <b>Non-current receivables</b>                      |                                      |                                 |
| Finance lease receivables – gross                   | <b>15,909</b>                        | 17,243                          |
| Less: unearned finance lease income                 | <b>(4,606)</b>                       | (5,275)                         |
| Finance lease receivables – net                     | <b>11,303</b>                        | 11,968                          |
| <b>Current receivables</b>                          |                                      |                                 |
| Finance lease receivables – gross                   | <b>2,737</b>                         | 2,820                           |
| Less: unearned finance lease income                 | <b>(1,382)</b>                       | (1,455)                         |
| Finance lease receivables – net                     | <b>1,355</b>                         | 1,365                           |
| Trade receivables – gross                           | <b>17,010</b>                        | 23,241                          |
| Less: provision for impairment of trade receivables | <b>(195)</b>                         | (309)                           |
| Trade receivables – net                             | <b>16,815</b>                        | 22,932                          |
| Other receivables                                   | <b>15,040</b>                        | 10,784                          |
| Prepayments   | <b>15,359</b>                        | 7,927                           |
| Amounts due from jointly controlled entities        | <b>2,452</b>                         | 2,546                           |
|   | <b>51,021</b>                        | 45,554                          |

## 6 TRADE AND OTHER RECEIVABLES (Continued)

At 30 June 2007, the ageing analysis of trade receivables is as follows:

|                   | <b>30 June<br/>2007<br/>US\$'000</b> | 31 December<br>2006<br>US\$'000 |
|-------------------|--------------------------------------|---------------------------------|
| Less than 30 days | <b>14,870</b>                        | 18,682                          |
| 31 – 60 days      | <b>703</b>                           | 2,361                           |
| 61 – 90 days      | <b>412</b>                           | 369                             |
| Over 90 days      | <b>830</b>                           | 1,520                           |
|                   | <b>16,815</b>                        | 22,932                          |

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

## 7 TRADE AND OTHER PAYABLES

|  | <b>30 June<br/>2007<br/>US\$'000</b> | 31 December<br>2006<br>US\$'000 |
|--|--------------------------------------|---------------------------------|
| Trade payables                             | <b>14,746</b>                        | 13,661                          |
| Accruals and other payables                | <b>33,186</b>                        | 36,951                          |
| Receipts in advance                        | <b>29,232</b>                        | 18,853                          |
| Amounts due to jointly controlled entities | <b>390</b>                           | 429                             |
|  | <b>77,554</b>                        | 69,894                          |

At 30 June 2007, the ageing analysis of trade payables is as follows:

|                   | <b>30 June<br/>2007<br/>US\$'000</b> | 31 December<br>2006<br>US\$'000 |
|-------------------|--------------------------------------|---------------------------------|
| Less than 30 days | <b>13,042</b>                        | 10,621                          |
| 31 – 60 days      | <b>93</b>                            | 1,315                           |
| 61 – 90 days      | <b>125</b>                           | 482                             |
| Over 90 days      | <b>1,486</b>                         | 1,243                           |
|                   | <b>14,746</b>                        | 13,661                          |

## 8 LONG TERM BORROWINGS

|                                    | <b>30 June<br/>2007<br/>US\$'000</b> | 31 December<br>2006<br>US\$'000 |
|------------------------------------|--------------------------------------|---------------------------------|
| <b>Non-current</b>                 |                                      |                                 |
| Finance lease liabilities (Note a) | <b>263,306</b>                       | 285,925                         |
| Secured bank loans (Note b)        | <b>17,470</b>                        | 40,659                          |
|                                    | <b>280,776</b>                       | 326,584                         |
| <b>Current</b>                     |                                      |                                 |
| Finance lease liabilities (Note a) | <b>30,734</b>                        | 16,048                          |
| Secured bank loans (Note b)        | <b>8,056</b>                         | 7,833                           |
|                                    | <b>38,790</b>                        | 23,881                          |
| Total long term borrowings         | <b>319,566</b>                       | 350,465                         |

(a) The maturity of the Group's finance lease liabilities is as follows:

|  | <b>30 June<br/>2007<br/>US\$'000</b> | 31 December<br>2006<br>US\$'000 |
|--|--------------------------------------|---------------------------------|
| Not later than one year                            | <b>30,734</b>                        | 16,048                          |
| Later than one year but not later than two years   | <b>16,632</b>                        | 17,078                          |
| Later than two years but not later than five years | <b>57,352</b>                        | 58,932                          |
| Later than five years                              | <b>189,322</b>                       | 209,915                         |
|  | <b>294,040</b>                       | 301,973                         |

(b) The bank loans as at 30 June 2007 are secured, inter alia, by the following:

- (i) Mortgages over certain owned vessels of net book value totalling US\$128,790,000 (31 December 2006: US\$131,726,000); and
- (ii) Assignment of earnings, insurances and requisition compensation in respect of the vessels.

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

|  | <b>30 June<br/>2007<br/>US\$'000</b> | 31 December<br>2006<br>US\$'000 |
|--|--------------------------------------|---------------------------------|
| Not later than one year                            | <b>8,056</b>                         | 7,833                           |
| Later than one year but not later than two years   | <b>8,056</b>                         | 7,833                           |
| Later than two years but not later than five years | <b>9,414</b>                         | 23,499                          |
| Later than five years                              | <b>-</b>                             | 9,327                           |
|  | <b>25,526</b>                        | 48,492                          |

**9 SHARE CAPITAL**

|  | 2007                             |                | 2006                             |          |
|--|----------------------------------|----------------|----------------------------------|----------|
|  | Number of shares of US\$0.1 each | US\$'000       | Number of shares of US\$0.1 each | US\$'000 |
| Authorised   | <b>3,600,000,000</b>             | <b>360,000</b> | 3,600,000,000                    | 360,000  |
| Issued and fully paid  |                                  |                |                                  |          |
| At 1 January   | <b>1,557,851,795</b>             | <b>155,785</b> | 1,282,540,608                    | 128,184  |
| Shares issued upon exercise of share options (Note a)  | <b>3,030,000</b>                 | <b>303</b>     | 18,112,000                       | 1,811    |
| Shares purchased by trustee of the LTIS (Note b)   | <b>(1,760,000)</b>               | <b>(2,033)</b> | (5,324,000)                      | (2,714)  |
| Shares transferred to employees upon granting of restricted share awards (Note b)            | <b>1,760,000</b>                 | <b>2,033</b>   | 5,745,408                        | 2,904    |
| Shares issued and transferred to employees upon granting of restricted share awards (Note b) | <b>8,247,500</b>                 | <b>825</b>     | -                                | -        |
| Shares transferred back to trustee upon lapse of restricted share awards (Note b)            | <b>(50,000)</b>                  | <b>(5)</b>     | (222,221)                        | (100)    |
| Shares issued upon placing of new shares   | -                                | -              | 257,000,000                      | 25,700   |
| At 30 June/31 December   | <b>1,569,079,295</b>             | <b>156,908</b> | 1,557,851,795                    | 155,785  |

**(a) Share options**

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

|                        | 2007                                     |                        | 2006                                     |                        |
|------------------------|--|------------------------|--|------------------------|
|                        | 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           | <b>2.500</b>                             | <b>21,258</b>          | 2.654                                    | 44,770                 |
| Exercised (Note)       | <b>2.500</b>                             | <b>(3,030)</b>         | 2.500                                    | (18,112)               |
| Cancelled              | -  | -                      | 3.875                                    | (5,000)                |
| Lapsed                 | -  | -                      | 2.500                                    | (400)                  |
| At 30 June/31 December | <b>2.500</b>                             | <b>18,228</b>          | 2.500                                    | 21,258                 |

Note: The related weighted average price of the Company's shares at the time of exercise was HK\$ 6.98 (31 December 2006: HK\$3.90) per share.

## 9 SHARE CAPITAL (Continued)

### (a) Share options (Continued)

Out of the 18,228,000 (31 December 2006: 21,258,000) outstanding share options, 2,928,000 (31 December 2006: 5,958,000) share options were exercisable at the balance sheet date.

### (b) Restricted share awards

Restricted share awards under the LTIS were granted to Directors, senior management and certain employees. The LTIS under Hong Kong Financial Reporting Standards is regarded as a special purpose entity of the Company.

During the period, 10,007,500 (31 December 2006: 5,745,408) restricted share awards were granted on 11 May 2007 and transferred to certain employees and 50,000 (31 December 2006: 222,221) shares formerly transferred to an employee lapsed. Out of the 10,007,500 restricted share awards granted, (i) 1,760,000 (31 December 2006: 5,324,000) shares were purchased by the trustee of the LTIS on the Stock Exchange at a total cost of US\$2,033,000 (31 December 2006: US\$2,714,000), and (ii) 8,247,500 shares were issued by the Company at nominal value of US\$0.10 each. At 30 June 2007, there remained 50,814 (31 December 2006: 814) shares held by the trustee.

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

| Date of grant     | Number of<br>Share awards | Vesting periods   |
|-------------------|---------------------------|---|
| 8 June 2005       | 3,333,333                 | in equal amounts on 5 April 2006, 2007, 2008, 2009 and 2010                           |
| 8 June 2005       | 1,466,666                 | in equal amounts on 30 November 2005, 2006 and 2007                                   |
| 9 March 2006      | 1,475,000                 | in equal amounts on 1 March 2007, 2008, 2009, 2010 and 2011                           |
| 15 March 2006     | 300,000                   | in equal amounts on 1 March 2007, 2008, 2009, 2010 and 2011                           |
| 20 March 2006     | 1,020,408                 | in equal amounts on 5 April 2006, 2007, 2008, 2009 and 2010                           |
| 21 July 2006      | 450,000                   | in equal amounts on 23 August 2007, 2008, 2009, 2010 and 2011                         |
| 19 September 2006 | 2,500,000                 | in equal amounts on 19 September 2006, 4 September 2008, 2009, 2010 and 2011          |
| 11 May 2007       | 10,007,500                | 3,215,000, 3,215,000 and 3,577,500 shares on 14 July 2008, 2009 and 2010 respectively |

**9 SHARE CAPITAL (Continued)**

**(b) Restricted share awards (Continued)**

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

|                               | <b>2007</b>    | 2006    |
|-------------------------------|----------------|---------|
|                               | <b>'000</b>    | '000    |
| <b>At 1 January</b>           | <b>8,086</b>   | 4,311   |
| Granted                       | <b>10,008</b>  | 5,745   |
| Vested                        | <b>(1,236)</b> | (1,748) |
| Lapsed                        | <b>(50)</b>    | (222)   |
| <b>At 30 June/31 December</b> | <b>16,808</b>  | 8,086   |

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

**10 DIRECT COSTS**

|  | <b>Six months ended 30 June</b> |          |
|--|---------------------------------|----------|
|  | <b>2007</b>                     | 2006     |
|  | <b>US\$'000</b>                 | US\$'000 |
| Charter-hire expenses for vessels                    | <b>79,953</b>                   | 42,182   |
| Vessel operating costs                               | <b>22,755</b>                   | 16,787   |
| Depreciation of vessels                              | <b>18,716</b>                   | 14,309   |
| Shore based overheads                                | <b>13,134</b>                   | 10,685   |
| Cost of marine products sold and consulting services | <b>1,021</b>                    | 911      |
|  | <b>135,579</b>                  | 84,874   |

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

## 11 OPERATING PROFIT

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

|   | <b>Six months ended 30 June</b> |          |
|---|---------------------------------|----------|
|   | <b>2007</b>                     | 2006     |
|   | <b>US\$'000</b>                 | US\$'000 |
| Depreciation for  |                                 |          |
| – owned vessels   | <b>11,342</b>                   | 7,021    |
| – leased vessels  | <b>7,374</b>                    | 7,288    |
| – other owned property, plant and equipment   | <b>588</b>                      | 626      |
| Amortisation of land use rights   | <b>5</b>                        | –        |
| Bunkers consumed  | <b>50,227</b>                   | 38,514   |
| Lubricating oil consumed  | <b>2,171</b>                    | 1,244    |
| Employee benefit expenses including Directors' emoluments                               | <b>14,651</b>                   | 12,712   |
| Operating lease expenses for  |                                 |          |
| – vessels   | <b>79,953</b>                   | 42,182   |
| – land and buildings  | <b>773</b>                      | 793      |
| Gains on disposal of financial assets at fair value through profit or loss <sup>1</sup> | <b>(800)</b>                    | –        |
| Gains on financial assets at fair value through profit or loss <sup>1</sup>             | <b>(10,525)</b>                 | –        |
| Gains on derivative instruments not qualifying as hedges                                |                                 |          |
| – bunker swap and forward contracts <sup>2</sup>  | <b>(7,598)</b>                  | (5,157)  |
| – forward freight agreements <sup>1</sup>   | <b>(13,580)</b>                 | (4,650)  |
| Losses on derivative instruments not qualifying as hedges                               |                                 |          |
| – bunker swap and forward contracts <sup>2</sup>  | <b>1,834</b>                    | 1,771    |
| – forward freight agreements <sup>3</sup>   | <b>35,021</b>                   | 8,757    |

<sup>1</sup> Included in "Other operating income"

<sup>2</sup> Included in "Bunkers, port disbursements, other charges and amounts payable to other pool members"

<sup>3</sup> Included in "Other operating expenses"

## 12 FINANCE COSTS

|  | <b>Six months ended 30 June</b> |          |
|--|---------------------------------|----------|
|  | <b>2007</b>                     | 2006     |
|  | <b>US\$'000</b>                 | US\$'000 |
| Interest on bank loans                             | <b>1,154</b>                    | 501      |
| Interest on finance leases                         | <b>10,113</b>                   | 10,626   |
| Loan arrangement fees                              | <b>33</b>                       | 4        |
| Other finance charges                              | <b>205</b>                      | 243      |
| Net (gains)/losses on interest rate swap contracts | <b>(1,261)</b>                  | 251      |
|  | <b>10,244</b>                   | 11,625   |

## 13 TAXATION

Hong Kong profits tax has been provided at the rate of 17.5% (2006: 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/(credited) to the unaudited condensed consolidated income statement represents:

|                              | <b>Six months ended 30 June</b> |          |
|------------------------------|---------------------------------|----------|
|                              | <b>2007</b>                     | 2006     |
|                              | <b>US\$'000</b>                 | US\$'000 |
| Current taxation             |                                 |          |
| Hong Kong profits tax        | <b>436</b>                      | 319      |
| Overseas tax                 | <b>263</b>                      | 177      |
| Overprovision of prior years | <b>(796)</b>                    | –        |
|                              | <b>(97)</b>                     | 496      |

## 14 DIVIDENDS

|  | <b>Six months ended 30 June</b> |          |
|--|---------------------------------|----------|
|  | <b>2007</b>                     | 2006     |
|  | <b>US\$'000</b>                 | US\$'000 |
| Interim dividend of HK 45 cents or US 5.8 cents per share<br>(2006: HK 20 cents or US 2.6 cents per share) | <b>90,334</b>                   | 33,443   |

An interim dividend in respect of the year ending 31 December 2007 of HK 45 cents or US 5.8 cents per share, amounting to a total dividend of US\$90,334,000, was declared on 7 August 2007. These condensed consolidated interim financial statements do not reflect this dividend payable. A 2006 final dividend of HK 22.5 cents or US 2.9 cents per share (2005: HK 35 cents or US 4.5 cents per share), totalling US\$44,964,000 (2005: US\$58,109,000) was paid during the period.

## 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 period, excluding the shares held by the trustee of the Company's LTIS.

|   | <b>Six months ended 30 June</b> |                |
|---|---------------------------------|----------------|
|   | <b>2007</b>                     | 2006           |
| Profit attributable to shareholders (US Dollars in thousand)      | <b>162,934</b>                  | 36,385         |
| Weighted average number of ordinary shares in issue (in thousand) | <b>1,561,657</b>                | 1,285,107      |
| Basic earnings per share  | <b>US 10.43 cents</b>           | US 2.83 cents  |
| Equivalent to   | <b>HK 81.39 cents</b>           | HK 21.95 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 ordinary shares in issue during the period after adjusting for the number of potential dilutive ordinary shares granted under the Company's LTIS but excluding the shares held by the trustee of the Company's LTIS.

|   | <b>Six months ended 30 June</b> |                |
|---|---------------------------------|----------------|
|   | <b>2007</b>                     | 2006           |
| Profit attributable to shareholders (US Dollars in thousand)                            | <b>162,934</b>                  | 36,385         |
| Weighted average number of ordinary shares in issue (in thousand)                       | <b>1,561,657</b>                | 1,285,107      |
| Adjustments for share options (in thousand)   | <b>11,710</b>                   | 10,600         |
| Weighted average number of ordinary shares for diluted earnings per share (in thousand) | <b>1,573,367</b>                | 1,295,707      |
| Diluted earnings per share  | <b>US 10.36 cents</b>           | US 2.81 cents  |
| Equivalent to   | <b>HK 80.78 cents</b>           | HK 21.77 cents |

**16 COMMITMENTS**

**(a) Capital commitments**

|   | <b>30 June<br/>2007</b> | 31 December<br>2006 |
|---|-------------------------|---------------------|
|   | <b>US\$'000</b>         | US\$'000            |
| <b>Vessel acquisitions and shipbuilding contracts</b> |                         |                     |
| — Contracted but not provided for                     | <b>225,318</b>          | 216,805             |
| — Authorised but not contracted for                   | <b>—</b>                | 34,878              |
|   | <b>225,318</b>          | 251,683             |

Capital commitments that fall due not later than one year amount to US\$109.6 million (31 December 2006: US\$128.0 million).

16 COMMITMENTS (Continued)

(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<br>buildings<br>US\$'000 | Vessels<br>US\$'000 | Total<br>US\$'000 |
|---|-----------------------------------|---------------------|-------------------|
| At 30 June 2007                                   |                                   |                     |                   |
| Not later than one year                           | 1,558                             | 233,234             | 234,792           |
| Later than one year but not later than five years | 4,629                             | 219,890             | 224,519           |
| Later than five years                             | –                                 | 16,800              | 16,800            |
|   | <u>6,187</u>                      | <u>469,924</u>      | <u>476,111</u>    |
| At 31 December 2006                               |                                   |                     |                   |
| Not later than one year                           | 846                               | 118,906             | 119,752           |
| Later than one year but not later than five years | 358                               | 142,454             | 142,812           |
| Later than five years                             | –                                 | 23,728              | 23,728            |
|   | <u>1,204</u>                      | <u>285,088</u>      | <u>286,292</u>    |

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

**16 COMMITMENTS (Continued)**

**(b) Commitments under operating leases (Continued)**

*(ii) The Group as the lessor*

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

|   | <b>30 June<br/>2007<br/>US\$'000</b> | 31 December<br>2006<br>US\$'000 |
|---|--------------------------------------|---------------------------------|
| Not later than one year                           | <b>67,565</b>                        | 38,223                          |
| Later than one year but not later than five years | <b>32,685</b>                        | 15,955                          |
|   | <b>100,250</b>                       | 54,178                          |

The Group's operating leases are for terms ranging from less than 1 year to 5 years.

**17 SIGNIFICANT RELATED PARTY TRANSACTIONS**

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

**(a) Purchases of services**

|  | <b>Six months ended 30 June</b> |          |
|--|---------------------------------|----------|
|  | <b>2007</b>                     | 2006     |
|  | <b>US\$'000</b>                 | US\$'000 |
| Insurance premium paid to Sun Hing Insurance Brokers Limited ("Sun Hing") (Note i) | <b>254</b>                      | 275      |
| Amounts payable to China Line Shipping Limited (Note ii)                           | <b>3,526</b>                    | 2,523    |
| Amounts payable to Fujairah Bulk Shipping L.L.C. (Note iii)                        | <b>3,230</b>                    | –        |

Notes:

- (i) The Group entered into certain insurance contracts through Sun Hing, a related company in which 35% of its shareholding was held indirectly by Dr. Lee Kwok Yin, Simon, a Director and a shareholder of the Company.
- (ii) The Group paid to China Line Shipping Limited, a jointly controlled entity, freight and charter-hire, net of bunkers, port disbursements and other charges which were calculated based on the vessel's pool points.
- (iii) The Group paid to Fujairah Bulk Shipping L.L.C., a jointly controlled entity, charter-hire in relation to the leasing of a vessel.

**17 SIGNIFICANT RELATED PARTY TRANSACTIONS (Continued)**

(b) Sales of services

|   | <b>Six months ended 30 June</b> |          |
|---|---------------------------------|----------|
|   | <b>2007</b>                     | 2006     |
|   | <b>US\$'000</b>                 | US\$'000 |
| Charter-hire income received from Fujairah Bulk Shipping L.L.C.<br>(Note) | <b>4,967</b>                    | 2,388    |

Note: The Group leased out certain vessels to Fujairah Bulk Shipping L.L.C., a jointly controlled entity.

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

|                          | <b>Six months ended 30 June</b> |          |
|--------------------------|---------------------------------|----------|
|                          | <b>2007</b>                     | 2006     |
|                          | <b>US\$'000</b>                 | US\$'000 |
| Directors' fee           | <b>141</b>                      | 127      |
| Salaries and bonus       | <b>2,755</b>                    | 2,496    |
| Retirement benefit costs | <b>75</b>                       | 68       |
| Share-based compensation | <b>744</b>                      | 677      |
| Termination benefits     | <b>-</b>                        | 273      |
|                          | <b>3,715</b>                    | 3,641    |

**18 SIGNIFICANT POST BALANCE SHEET EVENTS**

Subsequent to 30 June 2007, the Group has:

- (a) agreements with third parties to sell and charter back three vessels, with sale proceeds of US\$114 million; and
- (b) entered into a joint venture agreement with a third party to own and operate a new general cargo terminal, with an equity investment of approximately US\$16 million.

# Corporate Governance

Pacific Basin is committed to achieving and maintaining the highest standards of corporate governance consistent with the needs and requirements of the business and all of its stakeholders, and consistent with the Code on Corporate Governance Practices (the “Code”) of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Group has considered the Code and has put in place corporate governance practices to meet all of the code provisions.

The Group has complied with all code provisions of the Code, as set out in Appendix 14 of The Rules Governing the Listing of the Securities on the Stock Exchange (the “Listing Rules”) throughout the six months ended 30 June 2007.

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](http://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**

The Company has adopted rules based on the Model Code on 30 August 2004 (the “Dealing Rules”) for 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. 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 principal office of 7th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong, or they may send an email to [companysecretary@pacbasin.com](mailto:companysecretary@pacbasin.com).

# Other Information

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

At 30 June 2007, 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  | -                    | 2,813,308              | -                | 9,193,453 <sup>2</sup>    | 1,600,000 <sup>1</sup>   | 13,606,761            | 0.87%   |
| Richard M. Hext         | -                    | 3,483,741 <sup>3</sup> | -                | -                         | -  | 3,483,741             | 0.22%   |
| Klaus Nyborg            | -                    | 2,900,000 <sup>4</sup> | -                | -                         | -  | 2,900,000             | 0.18%   |
| Wang Chunlin            | -                    | 1,280,000 <sup>5</sup> | -                | -                         | -  | 1,280,000             | 0.081%  |
| Jan Rindbo              | -                    | 4,056,370 <sup>6</sup> | -                | -                         | 1,200,000 <sup>6</sup>   | 5,256,370             | 0.33%   |
| Daniel R. Bradshaw      | 869,417 <sup>7</sup> | -                      | -                | -                         | -  | 869,417               | 0.055%  |
| Dr. Lee Kwok Yin, Simon | -                    | -                      | -                | 113,835,847 <sup>8</sup>  | 12,366,548 <sup>8</sup>  | 126,202,395           | 8.04%   |
| Patrick B. Paul         | -                    | 20,000                 | -                | -                         | -  | 20,000                | 0.001%  |

### Notes:

- (1) On 14 July 2004, Mr. Buttery was 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 the 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.
- Mr. Buttery has exercised his options to subscribe for 1,600,000 Shares in September 2005 and 1,600,000 Shares in August 2006.
- (2) 9,193,453 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.
- (3) 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 have vested 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 have vested 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.

- (4) The personal interests of Mr. Nyborg constitute 400,000 Shares and 2,500,000 Shares in the form of restricted share awards granted to him on 19 September 2006 pursuant to the LTIS. 500,000 Shares have vested on 19 September 2006, and an equal amount of 500,000 Shares will vest on each of 4 September 2008, 2009, 2010 and 2011.
- (5) On 9 March 2006, 550,000 Shares in the form of restricted share awards were granted to Mr. Wang pursuant to the LTIS. 110,000 Shares have vested on 1 March 2007, and an equal amount of 110,000 Shares will vest on each of 1 March 2008, 2009, 2010 and 2011.
- On 11 May 2007, a further 730,000 Shares in the form of restricted share awards were granted to Mr. Wang of which (i) 240,000 Shares will vest on 14 July 2008, (ii) 240,000 Shares will vest on 14 July 2009, and (iii) 250,000 Shares will vest on 14 July 2010.
- (6) The personal interests of Mr. Rindbo constitute 3,026,370 shares and 1,030,000 shares in the form of restricted share awards granted to him on 11 May 2007 pursuant to the LTIS, of which (i) 340,000 Shares will vest on 14 July 2008, (ii) 340,000 Shares will vest on 14 July 2009, and (iii) 350,000 Shares will vest on 14 July 2010.
- On 14 July 2004, Mr. Rindbo was granted options to subscribe for 1,200,000 Shares pursuant to the LTIS which are exercisable from 14 July 2007 to 14 July 2014. The subscription price is HK\$2.50 per Share.
- (7) 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.
- (8) The 113,835,847 Shares represent 19,935,122 Shares, 1,059,725 Shares, 36,370,000 Shares, 49,438,500 Shares and 7,032,500 Shares beneficially owned by Asia Distribution Limited, Firelight Investments Limited, Wellex Investment Limited, Fortress Eagle Investment Limited and Invest Paradise International Limited respectively. These companies are controlled by discretionary trusts established by Dr. Lee, the discretionary objects of which include his family members.
- The 12,366,548 underlying Shares under equity derivatives, are being held equally by Fortress Eagle Investment Limited and Invest Paradise International Limited (each holding 6,183,274 underlying Shares under equity derivatives) which, as disclosed above, are companies controlled by discretionary trusts established by Dr. Lee, the discretionary objects of which include his family members.
- 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 2007.
- 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 2007 under the LTIS are as follows:

### (a) Share options

|                            | Date of grant | Exercise price per share (HK\$) | Number of share options |  |                      |
|----------------------------|---------------|---------------------------------|-------------------------|--|----------------------|
|                            |               |                                 | Held at 1 January 2007  | Exercised during the period <sup>4</sup> | Held at 30 June 2007 |
| <b>Executive Directors</b> |               |                                 |                         |  |                      |
| Christopher R. Buttery     | 14 July 2004  | 2.50                            | 1,600,000 <sup>1</sup>  | –  | 1,600,000            |
| Jan Rindbo <sup>2</sup>    | 14 July 2004  | 2.50                            | 1,200,000 <sup>1</sup>  | –  | 1,200,000            |
| Paul C. Over <sup>3</sup>  | 14 July 2004  | 2.50                            | 1,600,000 <sup>1</sup>  | –  | 1,600,000            |
|                            |               |                                 | 4,400,000               | –  | 4,400,000            |
| <b>Senior Management</b>   | 14 July 2004  | 2.50                            | 1,200,000 <sup>1</sup>  | –  | 1,200,000            |
| <b>Key Staff</b>           | 14 July 2004  | 2.50                            | 5,408,000 <sup>1</sup>  | (1,930,000)                              | 3,478,000            |
| <b>Other Employees</b>     | 14 July 2004  | 2.50                            | 10,250,000 <sup>1</sup> | (1,100,000)                              | 9,150,000            |
|                            |               |                                 | 21,258,000              | (3,030,000)                              | 18,228,000           |

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 options will expire on 14 July 2014.
- (2) Mr. Rindbo was appointed as an executive Director on 1 April 2007.
- (3) Mr. Over resigned as an executive Director on 31 March 2007 but remains with the Group as a Senior Advisor.
- (4) The weighted average closing price of the shares immediately before the dates on which the options were exercised was HK\$6.87.

**(b) Restricted share awards**

|                            | As at<br>1 January<br>2007 | Number of restricted share awards |                                |                                | As at<br>30 June<br>2007 |
|----------------------------|----------------------------|-----------------------------------|--------------------------------|--------------------------------|--------------------------|
|                            |                            | Granted<br>during the<br>period   | Vested<br>during the<br>period | Lapsed<br>during the<br>period |                          |
| <b>Executive Directors</b> |                            |                                   |                                |                                |                          |
| Richard M. Hext            | 3,482,994 <sup>1</sup>     | –                                 | (870,747) <sup>1</sup>         | –                              | 2,612,247                |
| Klaus Nyborg               | 2,000,000                  | –                                 | –                              | –                              | 2,000,000                |
| Wang Chunlin               | 550,000 <sup>2</sup>       | 730,000 <sup>2</sup>              | (110,000) <sup>2</sup>         | –                              | 1,170,000                |
| Jan Rindbo <sup>3</sup>    | –                          | 1,030,000 <sup>3</sup>            | –                              | –                              | 1,030,000                |
|                            | 6,032,994                  | 1,760,000                         | (980,747)                      | –                              | 6,812,247                |
| <b>Senior Management</b>   | 400,000 <sup>5</sup>       | 800,000                           | (80,000) <sup>5</sup>          | –                              | 1,120,000                |
| <b>Key Staff</b>           | 494,443 <sup>6</sup>       | 1,870,000                         | –                              | –                              | 2,364,443                |
| <b>Other Employees</b>     | 1,158,332 <sup>7</sup>     | 5,577,500                         | (175,000) <sup>7</sup>         | (50,000) <sup>8</sup>          | 6,510,832                |
|                            | 8,085,769                  | 10,007,500 <sup>4</sup>           | (1,235,747)                    | (50,000)                       | 16,807,522               |

Notes:

- (1) An aggregate of 4,353,741 Shares (3,333,333 Shares and 1,020,408 Shares respectively granted on 8 June 2005 and on 20 March 2006) were granted to Mr Hext, of which (i) 870,747 Shares have vested on 5 April 2006, (ii) 870,747 Shares have vested on 5 April 2007, (iii) 870,747 Shares will vest on 5 April 2008, (iv) 870,746 Shares will vest on 5 April 2009 and (v) 870,754 Shares will vest on 5 April 2010.
- (2) 550,000 Shares were granted on 9 March 2006, of which 110,000 Shares have vested on 1 March 2007, and an equal amount of 110,000 Shares will vest on each of 1 March 2008, 2009, 2010 and 2011.
- 730,000 Shares were granted on 11 May 2007, of which (i) 240,000 Shares will vest on 14 July 2008, (ii) 240,000 Shares will vest on 14 July 2009, and (iii) 250,000 Shares will vest on 14 July 2010.
- (3) Mr. Rindbo was appointed as an executive Director on 1 April 2007. 1,030,000 Shares were granted on 11 May 2007, of which (i) 340,000 Shares will vest on 14 July 2008, (ii) 340,000 Shares will vest on 14 July 2009, and (iii) 350,000 Shares will vest on 14 July 2010.
- (4) Granted on 11 May 2007, of which (i) 3,215,000 Shares will vest on 14 July 2008, (ii) 3,215,000 Shares will vest on 14 July 2009 and (iii) 3,577,500 Shares will vest on 14 July 2010.
- (5) 400,000 Shares were granted on 9 March 2006, of which 80,000 Shares have vested on 1 March 2007 and an equal amount of 80,000 Shares will vest on each of 1 March 2008, 2009, 2010 and 2011.
- (6) 250,000 Shares were granted on 21 July 2006, of which 50,000 will vest on each of 23 August 2007, 2008, 2009, 2010 and 2011.
- 244,443 Shares were granted on 8 June 2005 and will vest on 30 November 2007.

- (7) 133,332 Shares were granted on 8 June 2005 and will vest on 30 November 2007.

825,000 Shares were granted on 9 March and 15 March 2006, of which 175,000 Shares have vested on 1 March 2007, and an equal amount of 162,500 Shares will vest on each of 1 March 2008, 2009, 2010 and 2011.

200,000 Shares were granted on 21 July 2006, of which 40,000 Shares will vest on each of 23 August 2007, 2008, 2009, 2010 and 2011.

- (8) 50,000 Shares granted on 11 May 2007 have lapsed due to termination of employment of an employee in June 2007.

The closing price of the Shares of the Company immediately before the 10,007,500 restricted share awards granted on 11 May 2007 was HK\$8.49.

### 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 2007, the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital, had been recorded.

| Name of shareholder                                       | Capacity/Nature of interest                                     | Number of Shares | Approximate percentage of issued share capital |
|---|---|------------------|--|
| BNP Paribas Jersey Trust Corporation Limited <sup>1</sup> | Trustee   | 127,014,269      | 8.09%  |
| Dr. Lee Kwok Yin, Simon <sup>2</sup>                      | Founder of a discretionary trust                                | 126,202,395      | 8.04%  |
| J.P. Morgan Chase & Co. <sup>3</sup>                      | Beneficial owner, investment manager and approved lending agent | 112,642,455      | 7.18%  |

Notes:

- The Shares held by BNP Paribas Jersey Trust Corporation Limited are held in the capacity of a trustee for discretionary trust established by Dr. Lee Kwok Yin, Simon.
- Also disclosed in the section "Directors' and Chief Executive's Interests", all the interests stated above represent long positions, no short positions were recorded in the register maintained under Section 336 of the SFO as at 30 June 2007.

- The Shares held by J.P. Morgan Chase & Co. are held in the capacities as beneficial owner (relating to 308,000 Shares), investment manager (relating to 62,546,000 Shares) and custodian corporation/ approved lending agent (relating to 49,788,455 Shares).

Save as disclosed above, as at 30 June 2007, no person 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 reporting period, other than for satisfying restricted share awards granted under the LTIS as disclosed earlier, 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 has been published on the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk) and on the Company's website at [www.pacbasin.com](http://www.pacbasin.com).

This Interim Report will be circulated to shareholders by 15 September 2007. An electronic copy of the Interim Report will also be available on the Stock Exchange's website at [www.hkex.com.hk](http://www.hkex.com.hk) and on the Company's website at [www.pacbasin.com](http://www.pacbasin.com) from the date when the printed copy is dispatched to shareholders.

The interim results has been reviewed by the Audit Committee of the Company, and by the external auditors, PricewaterhouseCoopers, in accordance with the Hong Kong Standard on Review Engagements 2410 issued by the HKICPA.

**Closure of register of members**

The register of members will be closed from 22 August 2007 to 23 August 2007 (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 4:30 p.m. on 21 August 2007. The ex-dividend date for the interim dividend will be on 20 August 2007.

**Directors**

As at the date of this report, the executive Directors of the Company are Christopher Richard Buttery, Richard Maurice Hext, Klaus Nyborg, Wang Chunlin and Jan Rindbo, the non-executive Directors of the Company are Daniel Rochfort Bradshaw and Dr. Lee Kwok Yin, Simon and the independent non-executive Directors of the Company are Robert Charles Nicholson, Patrick Blackwell Paul, The Earl of Cromer and David Muir Turnbull.



## Fleet List

### Core Fleet as at 1 August 2007

|                 | Handysize | Handymax  | Newbuildings on Order |          | Total     |
|-----------------|-----------|-----------|-----------------------|----------|-----------|
|                 |           |           | Handysize             | Handymax |           |
| Owned Fleet     | 19        | 2         | 11                    | 1        | 33        |
| Chartered Fleet | 39        | 8         | 2                     | 1        | 50        |
| <b>Total</b>    | <b>58</b> | <b>10</b> | <b>13</b>             | <b>2</b> | <b>83</b> |

## Fleet List

Interim Report 2007



### Core Handysize Fleet

核心小靈便型乾散貨船船隊

#### Owned Fleet — 19 Vessels

自有貨船 — 19艘

|                    | dwt<br>載重噸 | Year Built<br>建造年份 |
|--------------------|------------|--------------------|
| 1. Taihua Star     | 28,456     | 2007               |
| 2. Mount Rainier   | 32,815     | 2005               |
| 3. Mount Adams     | 28,442     | 2002               |
| 4. Willow Point    | 28,492     | 2001               |
| 5. Hawke Bay       | 28,460     | 2001               |
| 6. Tasman Sea      | 28,456     | 2001               |
| 7. Captain Corelli | 28,378     | 2001               |
| 8. Champion Bay    | 32,835     | 2000               |
| 9. English Bay     | 32,834     | 2000               |
| 10. Kiwi Trader    | 31,879     | 2000               |
| 11. Pacific Logger | 31,877     | 2000               |
| 12. Prince Rupert  | 28,685     | 2000               |
| 13. Gold River     | 32,972     | 1999               |
| 14. Chatham Island | 32,211     | 1997               |
| 15. Castle Peak    | 28,545     | 1997               |
| 16. Lake Joy       | 28,251     | 1996               |
| 17. Mount Cook     | 27,940     | 1996               |
| 18. Yin Xiu        | 28,730     | 1995               |
| 19. Amazonia       | 28,475     | 1994               |

#### Chartered Fleet — 39 Vessels

租賃貨船 — 39艘

|                                  | dwt<br>載重噸 | Year Built<br>建造年份 |
|----------------------------------|------------|--------------------|
| 20. Matariki Forest <sup>1</sup> | 28,709     | 2007               |
| 21. Port Angeles *               | 28,448     | 2007               |
| 22. Union Bay *                  | 32,355     | 2006               |
| 23. Shimanami Star               | 28,445     | 2006               |
| 24. Cape Knox *                  | 28,442     | 2006               |
| 25. Duncan Bay *                 | 28,414     | 2006               |
| 26. Port Alice *                 | 31,871     | 2005               |
| 27. Danny Boy                    | 28,386     | 2005               |
| 28. Great Dream                  | 33,745     | 2004               |
| 29. Port Pegasus *               | 32,774     | 2004               |
| 30. Sun Ruby *                   | 32,754     | 2004               |
| 31. Cook Strait *                | 31,894     | 2004               |
| 32. Timaru Star *                | 31,893     | 2004               |
| 33. Great Chance                 | 28,701     | 2004               |
| 34. Port Kenny *                 | 28,449     | 2004               |
| 35. Portland Bay *               | 28,446     | 2004               |
| 36. Cape Flattery *              | 28,433     | 2004               |
| 37. Black Forest *               | 32,751     | 2003               |
| 38. Mount Travers *              | 28,484     | 2002               |
| 39. Mount Fisher *               | 28,470     | 2002               |

### Core Handymax Fleet

核心大靈便型乾散貨船船隊

#### Owned Fleet — 2 Vessels

自有貨船 — 2艘

|                    | dwt<br>載重噸 | Year Built<br>建造年份 |
|--------------------|------------|--------------------|
| 1. Pacific Victory | 52,394     | 2001               |
| 2. Pacific Trader  | 45,578     | 2000               |

#### Chartered Fleet — 8 Vessels

租賃貨船 — 8艘

|                       | dwt<br>載重噸 | Year Built<br>建造年份 |
|-----------------------|------------|--------------------|
| 3. Delmar             | 53,565     | 2006               |
| 4. Xiamen Sky *       | 53,605     | 2005               |
| 5. Xiamen Sea *       | 53,589     | 2004               |
| 6. Kestrel I          | 50,351     | 2004               |
| 7. Heron <sup>3</sup> | 52,827     | 2001               |
| 8. Genco Carrier      | 47,180     | 1998               |
| 9. Genco Prosperity   | 47,180     | 1997               |
| 10. Arhimidis SB      | 45,320     | 1995               |



### Handysize Newbuildings on Order

已訂購之新建造小靈便型乾散貨船

|   | dwt<br>載重噸 | Year Built<br>建造年份 |
|---|------------|--------------------|
| 40. Ocean Exporter *  | 28,461     | 2002               |
| 41. Albany Sound *  | 28,379     | 2002               |
| 42. Cape York *   | 28,471     | 2001               |
| 43. Port Botany *   | 28,470     | 2001               |
| 44. Cape Nelson *   | 28,438     | 2001               |
| 45. Columbia River *  | 28,527     | 1998               |
| 46. Cape Spencer *  | 28,799     | 1997               |
| 47. Castle Island *   | 28,759     | 1997               |
| 48. Cape Scott *  | 28,747     | 1997               |
| 49. Pitt Island *   | 28,611     | 1997               |
| 50. Port Pirie <sup>2</sup><br>(to be renamed 將易名為 Captain T) | 28,585     | 1997               |
| 51. Niki T  | 27,827     | 1997               |
| 52. Eleni T   | 27,802     | 1997               |
| 53. Silver Bay *  | 26,556     | 1997               |
| 54. Happy Venture   | 28,587     | 1996               |
| 55. ID Harbour  | 28,760     | 1995               |
| 56. Pacific ID  | 27,860     | 1995               |
| 57. Ocean ID  | 28,429     | 1994               |
| 58. Enforcer  | 26,388     | 1992               |

### Owned Fleet — 11 Vessels

| 自有貨船 — 11艘  | dwt<br>載重噸 | Scheduled Delivery<br>預期交付年份 |
|---|------------|------------------------------|
| 59. Kanda Hull 491<br>(to be named 將命名為 Crescent Harbour) | 32,000     | 2007                         |
| 60. Imabari Hull 650                                      | 28,000     | 2008                         |
| 61. Jiangmen Hull 101                                     | 32,500     | 2008                         |
| 62. Jiangmen Hull 102                                     | 32,500     | 2008                         |
| 63. Jiangmen Hull 103                                     | 32,500     | 2008                         |
| 64. Jiangmen Hull 104                                     | 32,500     | 2009                         |
| 65. Jiangmen Hull 105                                     | 32,500     | 2009                         |
| 66. Jiangmen Hull 106                                     | 32,500     | 2009                         |
| 67. Jiangmen Hull 113                                     | 32,000     | 2009                         |
| 68. Jiangmen Hull 114                                     | 32,000     | 2009                         |
| 69. Imabari Hull 539                                      | 28,000     | 2009                         |

### Chartered Fleet — 2 Vessels

| 租賃貨船 — 2艘  | dwt<br>載重噸 | Scheduled Delivery<br>預期交付年份 |
|--|------------|------------------------------|
| 70. Kanda Hull 481<br>(to be named 將命名為 Pharos SW) | 32,000     | 2007                         |
| 71. Kanda Hull 509                                 | 32,000     | 2008                         |

### Handymax Newbuildings on Order

已訂購之新建造大靈便型乾散貨船

| Owned Fleet — 1 Vessel<br>自有貨船 — 1艘 | dwt<br>載重噸 | Scheduled Delivery<br>預期交付年份 |
|-------------------------------------|------------|------------------------------|
| 11. Oshima Hull 10546               | 54,000     | 2008                         |

| Chartered Fleet — 1 Vessel<br>租賃貨船 — 1艘                  | dwt<br>載重噸 | Scheduled Delivery<br>預期交付年份 |
|--|------------|------------------------------|
| 12. Imabari Hull 260<br>(to be named 將命名為 Ocean Diamond) | 53,500     | 2007                         |

Notes 附註：

\* The Group has the option but is not committed to purchase these vessels under the terms of their 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。

1 The delivery of "Matariki Forest" from the owned fleet to the chartered fleet pursuant to the sale and charter back transaction is expected to be completed in September 2007.  
根據出售及回租之交易，目前預期「Matariki Forest」之交付(由自有船隊轉至租賃船隊)將於二零零七年九月完成。

2 The Group has repurchased "Port Pirie" after exercising the purchase option under her bareboat charterparty. Pursuant to the sale and charter back transaction, the delivery of "Port Pirie" from the owned fleet to the chartered fleet is expected to be completed in August 2007.  
本集團已行使光船租賃合約協議下之購買選擇權回購「Port Pirie」。根據出售及回租之交易，目前預期「Port Pirie」之交付(由自有船隊轉至租賃船隊)將於二零零七年八月完成。

3 "Heron" is expected to join our chartered fleet in the fourth quarter of 2007.  
預計「Heron」將於二零零七年第四季度加入我們的租賃船隊。