Pacific Basin Shipping Limited

太平洋航運集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 2343)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 JUNE 2005

The Directors of Pacific Basin Shipping Limited (the "Company") are pleased to announce the unaudited consolidated results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 June 2005 (the "Period") as follows:

Key Highlights

	Six months ended 30 June	
	2005	2004 (restated)
Total Turnover *(US$ million)*	**191.1**	81.7
Profit Attributable to Shareholders *(US$ million)*	**85.5**	43.6
Basic Earnings per Share *(US cents)*	**6.75**	4.80
Basic Earnings per Share (HK cents)	***52.65***	*37.44*
Proposed interim dividend per share *(HK cents)*	**30.0**	–

- Fleet expansion during the second half of 2004 and first half of 2005 drives 78% growth in vessel revenue days to 6,750 (2004: 3,800) with an average rate earned of US$18,600 per vessel per day (2004: US$18,000);
- The fleet today (including newbuildings) stands at 56 vessels. We operate 50 vessels with an average age of 5 years (Handysize: 28 owned, 16 on long-term charter and 4 managed; Handymax: 2 on long-term charter) and have 6 Handysize on order.

INTERIM REPORT OF THE DIRECTORS

Overview

We are pleased to present the unaudited financial results of the Group for the six months ended 30 June 2005. Group profits rose to US$85.5 million (2004: US$43.6 million) on net revenues of US$135.5 million (2004: US$71.6 million). Basic earnings per share were 6.75 US cents, equivalent to 52.65 HK cents (2004: 4.80 US cents or 37.44 HK cents) from which the Board of Directors (the "Board") has declared an interim dividend of 30 HK cents per share (2004: nil). The profit of US$85.5 million includes gains on disposal of vessels of US$12.2 million or 0.96 US cents per share (2004: nil) and a gain of US$5.8 million or 0.46 US cents per share (2004: nil) in respect of bunker swap and forward contracts and interest-rate swaps, following the adoption of new Hong Kong accounting standards.

The strong performance achieved in the first half of the year reflects the substantial fleet expansion implemented in the second half of 2004 following the completion of our initial public offering ("IPO") in July 2004, our book of cargo contract cover and continued overall strength in the world's shipping markets. Our 2004 fleet expansion meant that our owned and long-term chartered handysize fleet provided 6,750 revenue days during the first half of 2005 versus 3,800 revenue days in 2004. On each of those days, we earned average time charter equivalent ("TCE") revenues of US$18,600 per day (2004: US$18,000) as a result of the cargo contract cover taken at the end of 2004 combined with strong spot market earnings.

We plan to expand our fleet further in order to improve the services we offer our customers, who include many of the world's major commodity companies. Due to high asset prices, however, we limited our first half vessel purchase activity, with the acquisition of only one second-hand vessel and one 2007 delivery newbuilding. Our programme of selling and chartering back vessels with re-purchase options has been more active and a number of transactions involving 12 of our existing vessels and one new building have now been completed, including several since the end of the reporting period. Accordingly, our fleet (including newbuildings) at 31 August 2005 stood at 56 vessels, comprising 28 owned, 16 chartered and four managed handysize vessels, plus two chartered handymax vessels and six handysize newbuildings on order for delivery in 2006 and 2007. Further details are provided in the Business Review – Fleet Developments section below.

Through our programme of selling and chartering back vessels, we have strengthened our balance sheet and hence our ability to respond to market opportunities should prices moderate, by reducing debt and releasing cash back into the business with no impact on the scale of our operations or the number of revenue days available to the Group and no material impact on the on-going results of our operations.

Market Review

Movements in short-term spot rates for dry bulk vessels during the first half of 2005 were very similar to those of the corresponding period of 2004 and, for most of this time, the dry bulk shipping market continued to enjoy high spot market rates driven by strong demand for bulk commodities and a relatively limited supply of dry bulk tonnage. China, whose economic growth has fuelled much of the dry cargo market's strength, again reported a strong GDP growth rate of 9.5% per annum over the first half of 2005.

The first quarter saw a continuation of the robust dry bulk freight rates experienced at the end of 2004, supported by strong Chinese demand for raw materials – iron ore and coal in particular. In the handysize market, spot rates remained above US$20,000 per day throughout the first quarter, except for a short seasonal dip ahead of the Chinese New Year holidays in February. As we moved into the second quarter, dry bulk freight rates started to decline, led by the larger capesize and panamax vessels. In particular, inventory build up ahead of the re-pricing of iron ore imports allowed Chinese buyers to step back from the market in April and May. This drop in demand coincided with the normal seasonal reductions in shipments, for example in thermal coal and southern hemisphere grain. Consequently, we saw a Pacific-led correction in earnings for all dry bulk sectors, with spot rates in the handysize market dropping to around US$14,000 per day by the end of June.

Whilst short-term changes in demand have undoubtedly had a significant impact on rates, the absolute level of demand has remained high and we see no clear evidence of world or regional economic growth trends having anything but a positive effect on bulk commodity shipments. As one illustration, in the second half of 2004 China imported an average of 18.4 million tonnes of iron ore each month. In the first half of 2005 that has increased 18.5% to 21.8 million tonnes per month despite the much publicised import licence system and a 70% increase in the cost of iron ore which became effective on 1 April 2005.

It is apparent, however, that the increasing supply of vessels is beginning to have an impact on the dry bulk market. Although the trend in the Baltic Dry Index has been very similar to the first half of 2004, that index dropped further than it did last year. During the first half of 2005, some 11.7 million dwt (dead weight tonnes) of dry bulk vessels were delivered (principally capesize and panamax), an increase of 14.5% over the corresponding period of 2004 and almost matching deliveries for the whole of 2003. Growth in the world handysize (25,000-35,000dwt) fleet has been much lower and, with negligible scrapping, the average age of that fleet has moved up to nearly 18 years, in large part because almost 30% of the ships are now over 25 years old. Whilst handysize shipowners have been keen to keep older vessels trading in the prevailing strong market, scrapping cannot be delayed indefinitely as rigorous regulatory requirements and statutory inspections become increasingly problematic for owners of overage tonnage. All this means that, in our handysize segment, we can be confident that supply will remain tight for some years to come.

The decline in spot rates, which continued through July, has been extended in our view by an easing of port congestion as short-term demand pressures have relaxed, thereby effectively releasing additional vessel supply back into the market. Encouragingly, the second half of August has seen an up-turn in spot market freight rates for all dry bulk vessels and the market should continue to strengthen as we move out of the traditionally quiet summer months and towards the stronger northern hemisphere grain season.

Prices for second-hand vessels moved up sharply in the first quarter in response to high market rates and strong demand for second-hand tonnage, boosted by a very active IPO market for dry bulk listings in the United States. Although freight rates have subsequently come down, vessel prices have only recently started to show signs of moderating, whilst the volume of sale and purchase activity has declined sharply and remains at very low levels. Our desire to expand our fleet is undiminished but we have not been willing to chase assets at prices which, in our view, are unlikely to offer sufficient returns and, until such time as we see a significant moderation in pricing levels, we will continue to adopt a patient approach to further vessel purchases.

Business Review

Operations

We aim to be the leading provider of handysize freight services to the world's major industrial and commodities companies. As we are an integral part of our customers' supply chain, it is essential that we deliver an efficient, cost-effective and reliable service. With many years of experience in our market niche, a network of offices around the regions we serve and one of the largest fleets of uniform, modern handysize bulk carriers, we seek to provide our customers with access to dedicated high quality tonnage at a time when growing demand is placing greater pressure on an old and increasingly inefficient world fleet.

Our International Handybulk Carriers ("IHC") Pool remains at the forefront of delivering handysize services to our customers in the Asia Pacific region and, increasingly, in the Atlantic. In the first six months of 2005, the IHC Pool handled over 6.1 million tonnes of cargo (2004: 4.7 million tonnes) with China, Japan and Korea continuing to be our core front-haul delivery destinations.

Pool earnings have been consistently high as a result of our long term cargo commitments, a strong spot market and our success in improving asset utilisation, which continues to be a key focus of management. Through the careful matching of front-haul and back-haul cargoes we further reduced our time in ballast from 16% in the first half of 2004 to just 14% in the first half of this year. This enables us to enhance our own returns as well, crucially, as those of our customers. Thus, we lifted our average handysize earnings from just over US$18,000 per day in the first half of 2004 to just over US$18,600 per day in the first half 2005, despite slightly lower spot market rates this year. These earnings were achieved on an expanded fleet capacity that saw our vessel revenue days grow to 6,750 in the first half of 2005 from 3,800 in 2004.

We have expanded and strengthened our network of regional offices to ensure that we offer our customers direct and local access to our chartering and operations' teams. We have increased our presence in Melbourne and Tokyo and have established a new office in Vancouver to complement our key functional centres in Hong Kong, Shanghai and London. This network of offices has allowed us to continue adding to our book of forward cargo cover which is critical in helping us optimise our fleet utilisation. At 31 July 2005, we had covered 62% of our 7,500 handysize revenue days for the second half of 2005 at an average contract rate of approximately US$15,700 per day. As a result, for the year as a whole we have either completed or covered over 80% of our 14,240 handysize revenue days at an average rate of just over US$17,400. Furthermore we already have cover for 38% of the 15,000 revenue days that our existing fleet is expected to provide in 2006 at US$13,700 per day and we have made a solid start towards building our book for 2007. We should note that all forward rates exclude the benefit of our ability to reduce ballast time which we achieve by combining front-haul and back-haul contract cargoes with spot cargoes.

Most contract negotiations take place in the fourth quarter and we expect to build our cargo book further at that time. If our customers can lock in forward cover for all or part of their freight exposure then they are able to do more business because this element of their trading risk exposure has been covered for the coming year or more, according to their preference. There are virtually no other operators in this sector with a large, modern fleet, and a strong, visible balance sheet that can serve handysize shippers in this way.

Fleet Developments

	Number of vessels			
	Owned	Chartered	Managed	Total
Handysize				
Fleet at 31 December 2004	33	7	4	44
Newbuilding delivered	1	–	–	1
Second-hand purchases	2	–	–	2
Charter expiry	–	(1)	–	(1)
Vessels sold and chartered back	(3)	3	–	–
Fleet at 30 June 2005	33	9	4	46
Newbuilding delivered	1	–	–	1
Second-hand purchase	1	–	–	1
Vessels sold and chartered back	(7)	7	–	–
Fleet at 31 August 2005	28	16	4	48
Newbuildings on order	2	4	–	6
Fleet at 31 August 2005 including newbuildings on order	30	20	4	54
Handymax				
Fleet at 31 December 2004	1	–	–	1
Newbuilding delivered	1	–	–	1
Vessels sold and chartered back	(2)	2	–	–
Fleet at 30 June and 31 August 2005	–	2	–	2
Total fleet at 31 August 2005	28	18	4	50
Total fleet at 31 August 2005 including newbuildings on order	**30**	**22**	**4**	**56**

At the start of the year our handysize fleet of 44 vessels comprised 33 owned, seven chartered and four managed vessels plus five newbuildings under construction, three of which were expected to enter the owned fleet and two to enter the long-term chartered fleet from delivery. We also had two owned handymax vessels, one delivered and one due for delivery in January 2005.

During the first half of 2005, as expected, we took delivery into the owned fleet of the Port Alice, a 32,000dwt handysize newbuilding, and the Pitt Island, a 28,000dwt 1997 built vessel which we purchased in late 2004. We also took delivery of the Castle Peak, another 28,000dwt 1997 built vessel and the only second-hand purchase during the Period. Against this, the Sea Bell completed her charter and left the fleet, giving a net increase to the handysize fleet of two vessels. Outside the handysize sector, we took delivery of the 53,800dwt handymax newbuilding, the Xiamen Sky.

Reflecting our commitment to a modern and uniform fleet, and noting the premium that the sale and purchase market placed on older vessels, we sold the Priory Bay during the first quarter of 2005. Priory Bay (now renamed Enforcer) was our oldest and smallest vessel and we chartered her back for two years plus an option for a third year, thereby allowing us to keep operating her until she no longer meets our fleet requirements.

Whilst strong market conditions led us to adopt a more cautious approach to purchases of second-hand tonnage, we commenced a significant programme to sell and charter back vessels. These transactions allow us to release capital back into the business whilst maintaining the scale of our operational activity and the number of revenue days available to us and have no material impact on the overall cost of the Group's operations.

In the six months to 30 June 2005, sale and charter back transactions were concluded for two handysize vessels, one handysize newbuilding and both handymax vessels. For the handymax vessels in particular, these ships have been chartered in at rates which match their outward charters, leaving us in a neutral cashflow position but without any equity commitment to them. This programme has continued since the end of the Period and we have recently concluded the sale and charter back of a further seven handysize vessels and one newbuilding, including those transactions announced on 18 and 31 August 2005. Except for the Priory Bay, all these sales contain the right for us to repurchase the vessels, thereby ensuring that we can continue to have access to and to operate the vessels beyond the expiry of the charters if we so choose.

Such transactions have also enabled us to access additional vessels at attractive prices in what is otherwise a very tight market for tonnage supply. In conjunction with the sale and charter back of the Cape Jaffa, as announced on 31 August 2005, we have purchased the 1996 built 28,000dwt Solar Oceania, with delivery into our fleet expected in October 2005. We have also placed an order for a 32,000dwt vessel due for delivery in 2007.

As a result, our fleet at 31 August 2005 stood at 56 vessels, comprising 28 owned, 16 chartered and four managed handysize vessels plus two chartered handymax vessels and six handysize newbuildings on order, three delivering in each of 2006 and 2007.

Dividends

The Company's stated dividend policy is to distribute not less than 50% of the available profits, with the potential to distribute more than this when the strength of the Group's results, business and prospects indicates that this is appropriate. In accordance with this policy, the Board has declared an interim dividend of 30 HK cents per share from the basic earnings per share for the six months ended 30 June 2005 of 52.65 HK cents, which will be paid on 4 October 2005. The register of members will be closed from 22 September 2005 to 23 September 2005 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 21 September 2005.

The decision by the Board to pay out 57% of the Group's profits for the Period recognises the strong performance of the business in the first half of the year and the contract cover in place for the balance of this year and for next year. The Group's strategy of booking forward contract cover for a significant portion of its revenues adds predictability to its future revenues and cashflows and, consequently, to the level of dividends which can be paid to shareholders. Following the payment of the 2005 interim dividend, the Group will still have distributable profits of over US$66 million. Taking these two factors into account the Board currently expects to be able to propose a final dividend for the year of at least an additional 30 HK cents per share, bringing the total for the year to at least 60 HK cents. Further, the Board expects that it will be able to maintain a generous approach, if circumstances so permit, to the declaration of interim and final dividends for the 2006 financial year above the 50% minimum policy level. Any such recommendations will be made barring unforeseen circumstances and will be subject to the Board's responsibilities to ensure that the Group has adequate resources to meet all of its financial obligations and to continue the development of the business.

Outlook and Prospects

Our view of the outlook and prospects for the second half of 2005 is positive with spot market rates likely to be at levels that remain high by historical standards. Furthermore, the potential for rate "spikes" still exists given that the underlying causes – tight supply/demand balance coupled with increasing port congestion – remain. We believe this means that dry bulk shipowners who have the right tonnage and market position will continue to operate profitably. This optimism must, of course, be tempered by the fact that increased newbuilding deliveries, particularly for larger dry bulk vessels, may keep rates below the peak levels seen in 2004. With scrapping now at minimal levels, however, the impact of new deliveries is presently at its highest and any sustained pressure on rates as a result of new tonnage deliveries should, in due course, be counter-balanced naturally by an increase in scrapping. This is particularly true in our sector where almost 30% of the world's handysize fleet is over 25 years old, where fleet growth is lowest irrespective of scrapping, and where new supply of vessels remains modest, with the additional capacity on order for delivery before the end of 2008 representing only 8.5% of the existing fleet.

With our present cover levels, the effect of spot market rates on our revenues is limited and this gives us confidence over the prospects for our earnings and dividends for the second half. As we progress through this year our intention is to build on the cargo base that we already hold for 2006 and 2007 and to start building our forward book for 2008. In doing this we seek to achieve greater stability in our revenues and cashflows, whilst at the same time providing our customers with longer term access to modern tonnage and certainty over their own freight costs. With the expectation of a stronger fourth quarter, we are confident that we will be able to commence next year with a good proportion of our 2006 and 2007 revenues locked in at profitable rates.

The sharp upward movement in vessel prices in the early part of the year meant that our first half fleet expansion was lower than we had originally hoped could be achieved. There are some initial signs that prices are easing and we believe that, within the next 12 months, there may be opportunities to acquire additional tonnage (both second-hand and newbuildings) at more modest prices. With a low level of net capital expenditure in the first half, most of our operating cashflows was used to reduce debt. Our balance sheet position at 30 June 2005 has been further strengthened by the sale and charter back transactions concluded since then. Bank borrowings have been reduced by a further US$70 million and we now have available cash plus current undrawn debt facilities of over US$124 million, after allowing for the interim dividend, giving us spending power of over US$310 million based on our normal 60% borrowing policy. Accordingly, we are well positioned to act swiftly should vessel purchase opportunities present themselves.

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

Christopher R. Buttery
Chairman

Richard M. Hext
Deputy Chairman

Hong Kong, 5 September 2005

UNAUDITED CONDENSED CONSOLIDATED BALANCE SHEET

	Note	30 June 2005	31 December 2004 (restated)
		US$'000	*US$'000*
Non-current assets			
Fixed assets		**518,221**	545,096
Goodwill		**25,256**	25,256
Interests in jointly controlled entities		**12,903**	10,657
Interest in an associated company		**1**	1
Available-for-sale financial assets		**200**	200
Derivative financial instruments		**3,659**	–
Restricted bank deposits		**3,250**	4,150
		563,490	585,360
Current assets			
Inventories		**7,788**	6,564
Derivative financial instruments		**1,860**	–
Trade and other receivables	4	**20,393**	18,288
Bank balances and cash			
– pledged/restricted		**2,179**	1,910
– unpledged		**28,583**	41,651
		60,803	68,413
Current liabilities			
Trade and other payables	5	**36,734**	35,315
Current portion of long-term bank loans		**12,218**	36,021
Dividend payable		**–**	12,995
Taxation payable		**2,265**	1,801
		51,217	86,132
Net current assets/(liabilities)		**9,586**	(17,719)
Total assets less current liabilities		**573,076**	567,641
Non-current liabilities			
Long-term bank loans		**281,088**	334,103
Net assets		**291,988**	233,538
Equity			
Share capital		**126,611**	126,701
Reserves		**165,377**	106,837
Total equity		**291,988**	233,538

UNAUDITED CONDENSED CONSOLIDATED PROFIT AND LOSS ACCOUNT

	Note	Six months ended 30 June 2005	2004 (restated)
		US$'000	*US$'000*
Turnover	3	**191,112**	81,677
Bunkers, port disbursements and other charges	3	**(55,619)**	(10,057)
Turnover on a time charter equivalent basis	3	**135,493**	71,620
Other net gains		**12,328**	8
Direct costs		**(53,399)**	(23,789)
General and administrative expenses		**(6,443)**	(2,445)
Operating profit		**87,979**	45,394
Finance costs		**(2,371)**	(2,473)
Share of profits less losses of jointly controlled entities		**415**	800
Profit before taxation	6	**86,023**	43,721
Taxation	7	**(520)**	(147)
Profit attributable to shareholders		**85,503**	43,574
Dividends	8	**74,721**	49,812
Basic earnings per share	9(a)	**US6.75 cents**	US4.80 cents
Diluted earnings per share	9(b)	**US6.66 cents**	N/A

Notes:

1. **Basis of preparation**

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

These unaudited condensed consolidated accounts 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.

These condensed consolidated accounts should be read in conjunction with the 2004 annual accounts.

2. **Changes in principal accounting policies**

The accounting policies and methods of computation used in the preparation of these condensed consolidated accounts are consistent with those used in the 2004 annual accounts except that the Group has changed certain of its accounting policies following its adoption of new or revised Hong Kong Financial Reporting Standards ("HKFRS") and HKASs (collectively referred to as "New HKFRS") which are effective for accounting periods commencing on or after 1 January 2005.

As a result, significant accounting policies have been changed to comply with HKAS 16 "Property, Plant and Equipment", HKAS 32 "Financial Instruments: Disclosure and Presentation", HKAS 39 "Financial Instruments: Recognition and Measurement", HKFRS 2 "Share-based Payments", HKFRS 3 "Business Combinations" and Amendment to HKAS-Int 12 "Consolidation – Special Purpose Entities".

The impact on our activities in the Period of these New HKFRS and the changes in the Group's accounting policies have resulted in an increase in the profit attributable to shareholders for the Period by US$4.7 million (2004: US$0.5 million), details of which are set out in Note 2 to the unaudited condensed interim accounts in the 2005 Interim Report.

3. **Turnover and segment information**

The Group is principally engaged in the provision of dry bulk shipping services through the operation of a large, modern and uniform fleet of handysize vessels. Revenues recognised during the Period are as follows:

	Six months ended 30 June	
	2005	2004 (restated)
	US$'000	*US$'000*
Turnover		
Freight and charter-hire	**184,549**	78,087
Ship management income	**6,563**	3,590
	191,112	81,677
Bunkers, port disbursements and other charges	**(55,619)**	(10,057)
Turnover on a time charter equivalent basis	**135,493**	71,620

Primary reporting format – business segments

As previously stated in the notes to the 2004 annual accounts, the Group had two major segments: ship chartering and ship management. However, for the six months ended 30 June 2005, the Group no longer presents a ship management segment as the Group's business is dominated by the provision of dry bulk shipping services. Ship management no longer forms a significant part of the Group's business.

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. **Trade and other receivables**

	30 June 2005	31 December 2004
	US$'000	*US$'000*
Trade receivables	**9,864**	7,850
Less: provision for impairment of receivables	**(546)**	(195)
Trade receivables – net	**9,318**	7,655
Other receivables	**8,033**	6,434
Prepayments	**3,042**	4,081
Amount due from a related company	**–**	118
	20,393	18,288

At 30 June 2005, the ageing analysis of trade receivables is as follows:

	30 June 2005	31 December 2004
	US$'000	*US$'000*
Less than 30 days	**6,374**	4,717
31 – 60 days	**1,259**	1,978
61 – 90 days	**489**	347
Over 90 days	**1,196**	613
	9,318	7,655

No credit terms are normally given to customers. In relation to voyage related trade receivables, the due date depends on the date of completion of the voyage and the finalisation of port disbursements and other voyage related charges.

5. **Trade and other payables**

	30 June 2005	31 December 2004
	US$'000	*US$'000*
Trade payables	**5,967**	3,730
Accruals and other payables	**23,871**	24,179
Receipts in advance	**6,896**	7,406
	36,734	35,315

At 30 June 2005, the ageing analysis of trade payables is as follows:

	30 June 2005	31 December 2004
	US$'000	*US$'000*
Less than 30 days	**3,283**	2,225
31 – 60 days	**504**	346
61 – 90 days	**357**	392
Over 90 days	**1,823**	767
	5,967	3,730

6. Profit before taxation

Profit before taxation is stated after crediting and charging the following:

	Six months ended 30 June	
	2005	2004 (restated)
	US$'000	*US$'000*
Crediting:		
Gain on disposal of fixed assets	**12,221**	–
Fair value gains on financial instruments	**5,849**	–
Charging:		
Vessel operating costs	**14,176**	7,003
Shore-based overheads	**10,111**	2,944
Depreciation	**15,675**	6,479
Employee benefit expenses	**11,875**	3,758
Operating lease expenses on		
– vessels	**11,877**	6,944
– land and buildings	**825**	170
Interest on bank loans	**8,027**	2,354

7. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2004: 17.5%) on the estimated assessable profit for the Period.

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

The amount of taxation charged to the condensed consolidated profit and loss account represents:

	Six months ended 30 June	
	2005	2004
	US$'000	*US$'000*
Current taxation		
Hong Kong profits tax	**425**	135
Overseas tax	**95**	9
Deferred taxation relating to the origination and reversal of temporary differences	**–**	3
	520	147

8. Dividends

	Six months ended 30 June	
	2005	2004
	US$'000	*US$'000*
Dividends attributable to the previous financial year, approved and paid during the interim period:		
Final dividend in respect of the financial year ended 31 December 2004 of HK$0.16 (equivalent to US$0.02) per share (year ended 31 December 2003: nil)	**25,990**	–
Dividends attributable to the interim period:		
Interim dividend declared and paid after the interim period		
– proposed of HK$0.30 (equivalent to US$0.038) per share *(Note (a))*	**48,731**	–
– payable to shareholders of the Company immediately prior to listing of US$0.02 per share *(Note (b))*	**–**	18,347
Dividend declared by companies now comprising the Group to the then shareholders		
– paid	**–**	18,902
– payable	**–**	12,563
	74,721	49,812

Notes:

(a) The dividend was declared on 5 September 2005 and has not been recognised as a liability at the balance sheet date. The dividend was not reflected as a dividend payable in these condensed accounts, but will be reflected as an appropriation of retained profits for the year ending 31 December 2005.

(b) On 14 July 2004, the Directors declared an interim dividend of US$0.02 per share to the Company's shareholders on the morning of the date of listing, not including the public shareholders.

9. Earnings per share

(a) Basic earnings per share

Basic earnings per share is calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the six months ended 30 June 2005, excluding the shares held by the trustee of the Long Term Incentive Scheme.

	Six months ended 30 June	
	2005	2004 (restated)
Profit attributable to shareholders (US Dollars)	**85,503,000**	43,574,000
Weighted average number of ordinary shares in issue (thousands)	**1,266,600**	908,453
Basic earnings per share	**US 6.75 cents**	US 4.80 cents

(b) Diluted earnings per share

The calculation of diluted earnings per share is based on the Group's profit attributable to shareholders and the weighted average number of shares in issue during the six months ended 30 June 2005 after adjusting for the number of potential dilutive ordinary shares granted under the Company's Long Term Incentive Scheme.

	Six months ended 30 June 2005
Profit attributable to shareholders (US Dollars)	**85,503,000**
Weighted average number of ordinary shares in issue (thousands)	**1,266,600**
Adjustments for share options (thousands)	**17,000**
Weighted average number of ordinary shares for diluted earnings per share (thousands)	**1,283,600**
Diluted earnings per share	**US6.66 cents**

No information in respect of diluted earnings per share for the six months ended 30 June 2004 was presented as the Company had no potential dilutive shares.

MANAGEMENT DISCUSSION AND ANALYSIS

Review of Income

The Group is principally engaged in the provision of dry bulk shipping services through the operation of a large, modern and uniform fleet of handysize vessels. During the six months ended 30 June 2005, the Group's consolidated turnover on a time charter equivalent ("TCE") basis was US$135.5 million as compared with the corresponding period last year of US$71.6 million. Net profit attributable to shareholders increased to US$85.5 million from US$43.6 million last year.

As presented in the 2004 annual accounts, turnover is shown gross of voyage-related expenses. These expenses were incurred by the IHC Pool and related primarily to commissions, ships' bunkers, port-related costs and short-term hire expenses of chartered-in vessels. Approximately 96.6% of turnover was generated from the employment of the Group's owned and chartered fleet and the remaining 3.4% was generated from the provision of commercial and technical management services for third-party vessels and revenues from marine services businesses. The total amount of voyage-related expenses deducted from gross turnover of US$191.1 million (2004: US$81.7 million) was US$55.6 million (2004: US$10.1 million), resulting in turnover of US$135.5 million (2004: US$71.6 million) on a TCE basis.

In the first half of 2005, the Group achieved an average daily charter rate from its fleet of owned and chartered handysize vessels of approximately US$18,600, compared with approximately US$18,000 in the first half of 2004. Including our two handymax chartered-in vessels, the average daily charter rate was approximately US$18,100.

The average number of owned vessels increased to 33 in the first half of 2005 from 16 in the first half of 2004. The average number of chartered-in vessels in the first half of 2005 was eight as compared to five in the first half of 2004. Details of the movements in the fleet are set out in Interim Report of the Directors – Fleet Developments above.

Review of Costs

Direct costs in the first half of 2005 were US$53.4 million (2004: US$23.8 million). Direct costs include charter-hire expenses of vessels, vessel operating costs, cost of marine products sold, cost of marine services, and an overhead allocation of US$10.1 million (2004: US$2.9 million) representing shore-based costs of staff, offices and related expenses directly attributable to the employment and operation of the owned and chartered fleet.

Charter-hire expenses of vessels increased to US$11.9 million in the first half of 2005 from US$6.9 million in the first half of 2004. This increase was firstly a result of the increase in the average number of vessels chartered-in, and secondly a result of the increase in the average daily charter rate to approximately US$8,500 in the first half of 2005 from approximately US$7,800 in the first half of 2004.

The increase in depreciation expense of US$8.9 million primarily resulted from the doubling in the average number of vessels in the Group's owned fleet between the first half of 2004 and the first half of 2005. As a result of the adoption of Hong Kong Accounting Standard 16 "Property, Plant & Equipment", the Group has changed the accounting policy in relation to drydocking costs. Drydocking costs were previously charged to the profit and loss account when incurred but are now treated as a component cost of vessels and are depreciated over their estimated useful lives. This policy applies to previous accounting periods, which led to an increase in depreciation expense in the first half of 2005 and 2004 by US$3.7 million and US$1.1 million respectively.

The effect of the doubling of the average number of vessels in the Group's owned fleet, between the first half of 2004 and the first half of 2005 is also reflected in the increase in vessel operating costs, including crew expenses, insurance, repairs and maintenance and other miscellaneous running costs of US$7.2 million.

General and administrative expenses were US$6.4 million in the first half of 2005 as compared with US$2.4 million in the same period in 2004. The increase was largely due to the Group's reorganisation effective 31 March 2004 which resulted in the acquisition of the management companies and which gave rise to a full six months of costs (2004: three months). These expenses include Directors, senior management and administrative staff costs of US$4.7 million (2004: US$1.4 million) and other administrative and office expenses of US$1.7 million (2004: US$0.6 million), reflecting the expansion of the Group's business after listing. With the adoption of HKFRS 3 "Business Combinations", there was no amortisation of goodwill in the first half of 2005 (2004: US$0.4 million).

Finance costs of US$2.4 million consist of interest payments and other finance charges of US$8.2 million but are offset by significant gains arising from the mark-to-market value of financial instruments of US$5.8 million in respect of bunker swap and forward contracts and interest-rate swaps, the recognition of which is in accordance with the New HKFRS and detailed in Note 2 to the unaudited condensed interim accounts in the 2005 Interim Report. Interest payments on bank borrowings used to finance the Group's vessels in the first half of 2005 were US$8.0 million as compared to US$2.4 million in the same period of 2004, in part attributable to the higher average balance of debts outstanding which increased to US$348.6 million in the first half of 2005 from US$173.2 million in the same period of 2004. In addition, average interest rates on bank borrowings also rose by approximately 69%. Bank borrowings carried interest rates, excluding the effect of fair values of interest-rate swaps, which ranged from approximately 3.3% to 4.9% in the first half of 2005, as compared to approximately 2.5% to 3.4% in the first half of 2004.

Liquidity, Financial Resources and Capital Structure

Net cash generated from operating activities during the six months ended 30 June 2005 amounted to US$90.4 million (2004: US$62.9 million).

Net cash generated from investing activities was US$23.2 million in the first half of 2005, primarily as a result of the proceeds from the sale of vessels of US$103.1 million, offset by the purchase of vessels of US$77.6 million. Net cash used in investing activities was US$22.9 million in the first half of 2004, mainly representing the payments for the purchase of vessels, offset by the bank balances and cash of US$12.2 million acquired from the purchase of subsidiaries.

Net cash used in financing activities was US$126.7 million in the first half of 2005, primarily as a result of the repayment and voluntary prepayment of bank borrowings of US$125.2 million, the payment of dividends of US$13.0 million in January 2005 and US$26.0 million in May 2005, partially offset by the draw down of additional bank loans for the acquisition of vessels of US$49.0 million. Net cash generated from financing activities in the first half of 2004 was US$1.2 million, which mainly represented the bank loans drawn down pursuant to the acquisition of three vessels and delivery of two newbuildings during the first half of 2004, partly offset by the payment of dividends by companies now comprising the Group to the then shareholders prior to the Group's reorganisation in March 2004 and the repayment of bank borrowings.

As at 30 June 2005, the Group had working capital of US$21.8 million excluding long-term bank loans repayable within one year of US$12.2 million. The primary sources of liquidity comprised bank balances and cash of US$28.6 million and unutilised committed bank borrowing facilities of US$95.4 million. The Group's primary liquidity needs are to fund general working capital requirements (including lease commitments), fleet expansion and other capital expenditure. The Group's current policy is to borrow from banks approximately 60% of the fair market value of the vessels acquired.

The indebtedness of the Group solely comprises bank borrowings which decreased from US$370.1 million at 31 December 2004 to US$293.3 million at 30 June 2005. The decrease is primarily because the Group voluntarily prepaid bank borrowings of approximately US$58.0 million and repaid bank borrowings of U$67.2 million. The repayment of bank borrowings includes the repayment of US$50.1 million in respect of vessels which were sold and chartered back, partially offset by the draw down of additional bank borrowings to finance the acquisition of four vessels during the six months ended 30 June 2005. As at 30 June 2005, all outstanding secured bank borrowings of the Group expire through year 2012 to year 2013, US$12.2 million of which represents the current portion that is repayable within one year from the balance sheet date.

The Group hedges its exposure to interest rate fluctuations by way of interest-rate swaps and cap arrangement with banks which are detailed in Note 5 to the interim accounts in the 2005 Interim Report.

At 30 June 2005, the Group's banking facilities were secured by mortgages over 32 vessels with a total net book value of US$507.3 million and fixed deposits of approximately US$3.3 million, assignment of earnings and insurances in respect of the vessels and charges over the shares of certain vessel-owning subsidiaries.

At 30 June 2005, the Group had unutilised committed bank borrowing facilities of US$95.4 million. These facilities are available to finance the Group's newbuilding commitments and other vessel acquisitions to which the Group may be committed in the future.

At 30 June 2005, the Group's gearing ratio expressed as net borrowings (calculated as total bank borrowings net of cash) as a percentage of fixed assets (based on net book values) was 50.0% (31 December 2004: 59.1%).

The Group's lease commitments as at 30 June 2005 stood at US$125.5 million as opposed to US$37.0 million at 31 December 2004. The increase was primarily due to the sale and charter back of certain vessels during the Period.

Capital Expenditure

In the first half of 2005, capital expenditure on vessel additions, including instalments on newbuildings, was US$77.6 million.

As at 30 June 2005, the Group had non-cancellable commitments for the construction of three handysize vessels for delivery to the Group from August 2005 to August 2007, with an aggregate unpaid cost of approximately US$64.5 million. Unpaid costs are net of progress payments and prepayments. Finance for such vessel commitments will come from cash generated from the Group's operations, existing unutilised bank facilities and additional long-term borrowings to be arranged, as required.

Directors' Opinion on the Working Capital Available to the Group

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

Staff

As at 30 June 2005, the Group employed a total of 231 full-time shore-based staff in offices in Hong Kong, London, Melbourne, Seoul, Shanghai, Singapore, Tokyo and Vancouver.

The Group incurred total staff costs of approximately US$11.9 million for the six months ended 30 June 2005, representing 6.2% of the Group's turnover for the Period.

Remuneration of the Group's employees includes basic salaries, bonuses and long term incentives. Employees are remunerated on a fixed-salary basis and are eligible for a discretionary bonus (based on both the Group and individual performance for the year) and performance-related bonuses if certain financial and other targets, which are set annually by the Board, are achieved.

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

Following the approval of shareholders at a special general meeting convened on 8 June 2005, the Company's share option scheme (now called the "Long Term Incentive Scheme") was amended to allow the Company to award restricted shares and restricted units as an alternative or in addition to granting share options.

Details of share options and restricted share awards granted under the Long Term Incentive Scheme are set out in Other Information section in the 2005 Interim Report.

Purchase, Sale or Redemption of Shares

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

Compliance with Code of Conduct Regarding Directors' Securities Transactions

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

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.

Code of Corporate Governance Practices

In the first half of 2005, the Company has been fully compliant with all code provisions of the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules.

Interim Report and Disclosure of Information on the Stock Exchange's Website

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

The Company's 2005 Interim Report will be circulated to shareholders by 30 September 2005. An electronic copy of the Interim Report will also be available on the Company's website at www.pacbasin.com from the date when the printed copy is dispatched to shareholders.

The interim results has been reviewed by the Audit Committee of the Company, and by our auditors, PricewaterhouseCoopers.

Closure of Register of Members

The register of members will be closed from 22 September 2005 to 23 September 2005 (both days inclusive) during which period no transfer of shares will be effected. In order to qualify for the interim dividend, all transfers, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch registrar, Computershare Hong Kong Investor Services Limited, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:00 p.m. on 21 September 2005.

Directors

As at the date of this announcement, the Executive Directors of the Company are Christopher R. Buttery, Richard M. Hext, Mark M. Harris and Paul C. Over, the Non-Executive Directors of the Company are Simon K.Y. Lee and Brian P. Friedman, and the Independent Non-Executive Directors of the Company are Robert C. Nicholson, Patrick B. Paul and The Earl of Cromer.

* *For identification purposes only*

Please also refer to the published version of this announcement in South China Morning Post.