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

Hong Kong, 5 September 2005