Interim Report of the Directors

SUMMARY

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

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

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

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

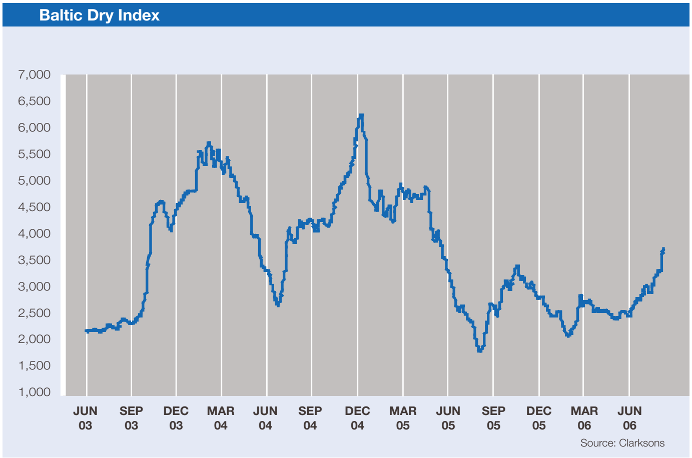
Taking all these factors into account, the Board has declared an interim dividend of 20 HK cents per share (2005: 30 HK cents per share) and has reaffirmed that the full year dividend is expected to be at least 40 HK cents per share. This high level of dividend payout reflects the confidence of the Board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

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

MARKET REVIEW

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

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

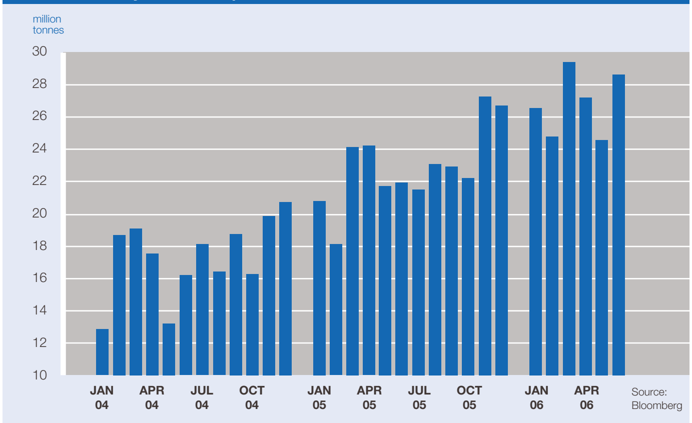


In the handysize market, spot rates in the Pacific, where over 85% of the IHC fleet operates, started the year at US$12,500 per day for a benchmark 28,000 deadweight tonnes (dwt) vessel and traded at this level for most of the first quarter, although dropping to US$11,000 per day at the end of January.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

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

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

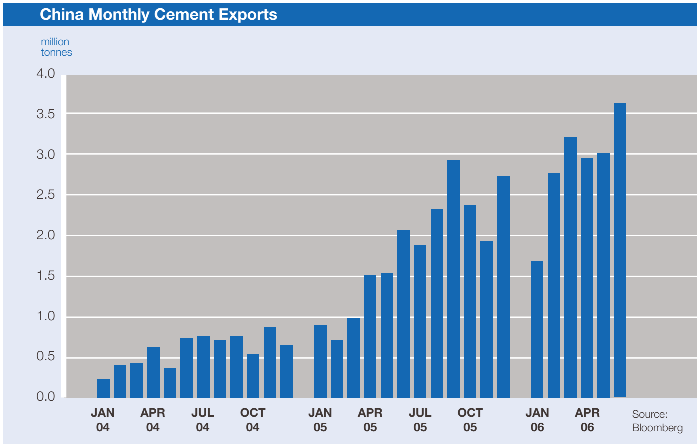
China Monthly Iron Ore Imports



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

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

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



Vessel supply and scrapping

As expected the first half of 2006 saw a high number of dry bulk newbuilding deliveries. Annualised net fleet growth of 7.2% during the first six months of the year was similar to the last six months of 2005, representing the highest level of deliveries for more than 20 years. Although order book data for future deliveries is not completely reliable, we believe we can now look forward to the rate of fleet expansion abating. Scrapping levels have increased this year, with as much dry bulk tonnage removed in the first half of 2006 as in the whole of 2004 and 2005 combined: this was mainly a reaction to freight market weakness in the first quarter, showing how responsive scrapping can be to freight sentiment. However, from a wider historical viewpoint, scrapping remains at low levels, increasing the backlog of over-aged vessels trading towards the end of their economic lives.

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

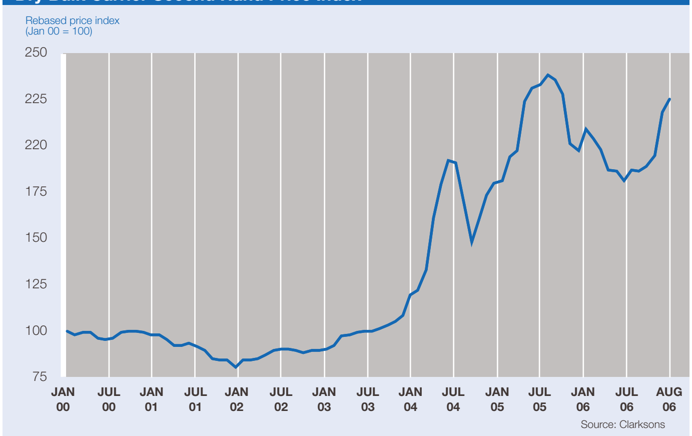
Vessel prices

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

Shipyards are generally full, with forward order books stretching to 2009 consisting mainly of containerships, tankers, and gas carriers, all of which are more profitable for shipyards to build than dry bulk carriers. As a result, there is limited available yard space for dry bulk vessels. Buyers who need ships for trading now have no alternative but to turn to the second hand market which has seen prices continuing to increase into the third quarter of this year. Although there is plenty of buying interest, owners of modern handysize vessels are reluctant to sell, creating a void of sales transactions in this sector. Values are therefore more difficult to set, but there can be no doubt that this sector has followed the trend seen for larger vessels with prices moving up strongly. This means that a five year-old 28,000dwt vessel is now estimated to be worth US$26 – US$27 million, compared to about US$21 – US$22 million at the start of the year. For handymax vessels there have been more transactions to set values against, and, whereas the value for a five year-old 52,000dwt was estimated at the start of the year to be about US$26 million, it is over US$34 million today. This sharp recovery in sale and purchase values reflects the much more positive attitude now prevailing in the dry bulk freight markets.

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

Dry Bulk Carrier Second Hand Price Index



BUSINESS REVIEW

Handysize operations

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

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

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

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

- At 20 August 2006, we had covered 77% of our 8,620 handysize revenue days for the second half of 2006 at an average rate of approximately US$14,500 per day: this rate includes a premium of about US$1,000 per day above the base contract rate which we expect to achieve on executing voyages. As a result, for the year as a whole, we have either completed or covered over 88% of our 16,190 handysize revenue days at an average daily rate of just over US$14,400. Furthermore we already have cover for 23% of the 18,550 revenue days that our existing fleet is expected to provide in 2007 at about US$14,000 per day (including our estimated US$1,000 execution premium), and we have made a solid start towards building our book for 2008. Most contract negotiations take place in the fourth quarter and we expect to build our cargo book further at that time. In this respect, rate discussions will take into account the recent rise in the market which has seen spot earnings for a 28,000dwt vessel increase to about US$17,500 per day. If our customers can lock in forward cover for all or part of their freight exposure then they may be able to do more business because this element of their trading exposure has been covered for the coming year or for longer, according to their preference. There are still virtually no other operators in this sector with a large, modern fleet, and a strong, visible balance sheet that can serve handysize shippers in this way.

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

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

Handymax operations

We commenced our handymax activity, under the brand name "IHX", in response to customers' demands for us to cover their handymax as well as their handysize freight transportation needs. We were fortunate to attract a small number of key staff to join us in London and in Shanghai and we have been able to give them access to IHC's customer base via Pacific Basin's network of offices. This operation thereby got off to a most encouraging start in terms of its volume of activity and in establishing itself with customers as a credible participant in the handymax sector. We carried 1.2 million tonnes of cargo during the period and earned time charter equivalent revenues of US$23.9 million (2005: US$3.0 million). As at 20 August 2006, we had a committed fleet of 20 vessels, of which 14 vessels are on charter for periods of up to 12 months. There was, however, a cost of entry with a loss of US$2.3 million in the period. This was due in part to the fact that we commenced operations using relatively high cost short term chartered vessels and in part to the fact that we had forecasted the freight market to show strength in the first quarter and then to decline in the second and third quarters of the year, as it had done in 2004 and 2005.

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

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

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

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

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

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

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

Other operations

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

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

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

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

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

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

Fleet developments

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

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

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

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

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

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

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

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

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

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

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

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

DIVIDENDS

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

The decision by the Board to pay out 91% of the Group's profits for the period reflects the strength of the Group's balance sheet following its successful sale and charter back programme last year and the positive outlook that prevails for the dry bulk market. The Group's strategy of booking forward contract cover for a significant portion of its revenues adds predictability to its future revenues and cashflows and, consequently, to the level of dividends which can be paid to shareholders. Following the payment of the 2006 interim dividend, the Group will still have distributable profits of over US$71 million. Taking these factors into account the Board currently expects to be able to propose a final dividend for the year of at least an additional 20 HK cents per share, bringing the total for the year to at least 40 HK cents. Further, the Board expects that it will be able to maintain a generous approach, if circumstances so permit, to the declaration of interim and final dividends for the 2007 financial year. Any such recommendations will be made barring unforeseen circumstances and will be subject to the Board's responsibilities to ensure that the Group has adequate resources to meet all of its financial obligations and to continue the development of the business.

OUTLOOK AND PROSPECTS

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

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

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

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

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

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

Richard M. Hext
Chief Executive

Hong Kong, 22 August 2006

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