CHAIRMAN'S STATEMENT

Results Summary

2005 witnessed another outstanding performance by the handysize drybulk market and successful further development of the Group's business model spearheaded by the IHC Pool. Consequently, Pacific Basin achieved very good results for the year ended 31 December 2005, its first full year as a publicly listed company. Group profits increased by 42% over 2004 to US$147.1 million (including US$23.5 million from seven sale and charterbacks and one lease-sale transaction) and turnover by 43% to US$433.7 million. Basic earnings per share rose 20.8% to 11.58 US cents (89.72 HK cents).

Given these strong results, our Group's secure financial condition and the apparently satisfactory outlook for the world economy and our business, the Board has recommended a final dividend of 35 HK cents per share, bringing the total for the year to 65 HK cents per share. This represents a 73% payout ratio, a substantial increase on the 56% distribution in 2004. The Board has also reaffirmed that it expects to maintain its dividend policy at a minimum of 50% of distributable profits or higher if circumstances permit. Following the payment of the 2005 final dividend, the Group will still have distributable profits of US$68 million. Taking all these factors into account and with more than 60% of our 2006 revenue days covered at satisfactory levels, the Board currently expects to be able to propose to pay in aggregate at least 40 HK cents per share by way of interim and final dividends for 2006.

The composition of the profit figure includes transaction gains totalling US$23.5 million which arose from the sale of six ships taken back on long term charters at reasonable rates and with purchase options. A seventh ship was finance-leased to a customer in China but accounted for as sold and an eighth (the smallest and oldest in our fleet) was disposed of with a shorter-term charterback. Without these gains, the increase in profits over 2004 (when there were no gains) was 19.4% – a function of the benefits of additional revenue days being moderated by slightly lower average income and higher overheads. The ships remaining under our long term control are now owned by Japanese companies with whom we have good relationships. Their appetite for very cheap yen finance combined with the tax benefits of ownership produced reasonably good sale prices linked, more importantly, to competitive charterback rates.

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Market Review

Total dry bulk cargo volumes in 2005 are estimated to have risen by approximately 5%, with the major cargoes (led by iron ore) outpacing the 2% increase in the less volatile, minor cargoes which are predominantly carried by our handysize ships. Dry bulk freight rates and ship values opened the year at exceptionally high levels and ended much lower but were nonetheless still high historically. Significantly, this was in the face of substantial newbuilding deliveries, at close to 7% of the total fleet, leading us to believe that considerable momentum exists in the market overall and, we believe, in our handysize sector in particular.

China's growing industrial production was once again the most important factor behind the remarkable resilience of the dry bulk market, with their iron ore import volumes increasing by almost a third year on year. To illustrate the effect of this trend, in 2000 China's iron ore imports were approximately half those of Japan, then the largest in the world. By 2005, Chinese volumes were more than double those of Japan and 2006 is likely to see further growth, although probably at a slightly slower pace. Dry bulk movements involving other Asian countries also grew encouragingly. Having our Group headquarters and largest office in Hong Kong positions us well to take advantage of the many shipping opportunities, to and from China and the other recovering and expanding economies of the region including Japan, South Korea and India.

With deliveries of all classes of new dry bulk vessels set to peak this year at just over 7% and given shipping's historical susceptibility to cycles, the less than optimistic market sentiment discernible at times has been understandable. The BDI, however, at 2,708 points (as at 1 March 2006) is still, for good reason, approximately double its long term average and companies which bought their ships in earlier, lower markets continue to enjoy very profitable margins whilst the strong demand for bulk commodities persists.

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In our sector, the total number of new vessels on order for delivery from 2006 to 2009 represents just 9% of the existing fleet – much lower than the orderbooks for capesize, panamax and handymax ships which range from 19% to 24%. Almost a quarter of the handysize fleet is 27 years old or more, the age at which such ships in the past have been scrapped, and any sustained weakness in the market should see significant deletions. The limited newbuilding orderbook and advanced age profile of tonnage in this sector mean that owners of modern tonnage (Pacific Basin's handysize fleet average is less than six years old) should benefit from supply constraints for the foreseeable future.

Business Review

In this environment sale and purchase prices in 2005 remained firm in our sector, leading us to adopt a cautious approach to fleet expansion. We nevertheless grew from 51 owned, chartered and managed ships at the start of the year to 60 at the end of the year (including our orderbook of new vessels). With limited opportunities for asset purchases in 2005, we instead took some advantage of the strong market and low long term fixed interest rates to strengthen our Group's balance sheet by selling and leasing back 17 ships in addition to the seven which we sold and time-chartered back. These transactions have considerably reduced our exposure to operating risk on the seven vessels, and to possible future interest rate increases on all 24 vessels. They also raised proceeds which in part were used to repay all of our conventional bank borrowings. As a result, our year end 2005 balance sheet shows cash of US$84 million (before the anticipated final dividend of US$58 million) and a long term liability of US$317 million in respect of the 17 ships which we sold and leased back. The 17 owned vessels are debt free.

We now have the financial resources to meet capital expenditure commitments of US$162 million on the purchase of a second hand ship due for delivery in the third quarter of 2006 and on our six newbuildings under construction, to continue our policy of declaring substantial dividends and to acquire additional tonnage at the appropriate time.

Average revenue in 2005 for our handysize vessels, operated in the IHC Pool, was US$17,100 per day compared with US$17,900 per day in 2004. Although this represents a small decline, it would have outperformed time charter rates for the same period. We believe strongly in the merits of dealing directly with end-users of our ships and of the commodities that they carry, rather than foregoing operational margins by time-chartering our vessels to other operators, who then on-charter to such end-users. By focusing largely on the handysize sector and by adopting a disciplined approach to booking and executing cargo contracts, we believe we can achieve greater earnings stability (and operational consistency for our customers) than by endeavouring to exploit very short term market movements. These are the key tenets of the IHC Pool which we formed in 2001 and continue to manage via our network of offices around the world. The sophistication of our operation requires more intensive management, which in turn entails higher overheads. Providing competent representatives to engage in constructive dialogue with our customers to reach optimal freighting solutions leads to a superior service – in some cases even resulting in making new trades viable for them. Our aim must be to limit expenses overall by controlling the costs associated with our modus operandi without any significant loss of service and revenue.

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We rely upon very high operational standards at sea as well as ashore and believe that we should be able to improve further our performance and cost controls in this area, too. Our fleet offhire days due to technical and crewing issues in 2005 were higher than we had hoped and remedying this has been made a key priority for management to address.

Outlook and Prospects

In a freight market that was a little weaker in the last quarter of 2005 than expected, we nevertheless made good progress in building our cargo book. Based on our current fleet and scheduled deliveries, we expect to have approximately 14,800 handysize revenue days in 2006 (compared to 14,200 in 2005) and we now have cargo contracts in place for 61% of these days at an average rate of US$13,400 per day. As we execute the voyages for these cargoes in 2006, we should be able to improve this figure to yield an effective rate in excess of US$14,400 per day by combining front-haul and back-haul cargoes, reducing ballast voyages and by taking in supplementary tonnage to optimize returns on our dedicated fleet. There must also be future fleet expansion if suitable opportunities arise. We therefore look ahead to the remainder of the year with some confidence, whatever may be in store in terms of short term rates on the balance of the days. For 2007, we have 20% of our revenue days covered at satisfactory levels and we are expecting to add to this and to our 2008 contracts as the year progresses (The revenue days quoted are handysize only as these days are, for the time being, the primary drivers of our Group profits).

It is our objective to develop our business model and apply it successfully to other sectors. We are therefore encouraged that our efforts to deliver high quality handysize freight execution seem to have been recognised by some of our customers who now want a similar service for their handymax shipments. We have accordingly assembled a team of seasoned handymax professionals in our Hong Kong, London and Shanghai offices and are finding that this new activity dovetails well with, and introduces new clients to, our existing handysize business. This represents an area of significant growth potential, although in the short term we are likely to develop it as an operating activity rather than investing in asset ownership. Following the success of our IHC Pool concept, we have decided to launch a handymax pool under the brand name "IHX". This has already generated interest from a number of owners.

Our efforts to develop new business in China have also borne fruit with the signing of an agreement with a Chinese shipping company, backed by one of the largest domestic power producers, to manage jointly a handysize bulker (the vessel, referred to earlier, which we sold under a finance lease) for the carriage of coastal coal. We see very significant potential in China and have recently reinforced our already highly qualified team by hiring Mr. C. L. Wang, age 42, formerly Assistant President at Sinotrans, one of China's largest shipping and logistics Groups. Mr. Wang, whom we know well, will lead our business development programme. Following his appointment, in Hong Kong, a number of new initiatives and projects in China are under consideration.

In January 2006, we commenced a new operation in the Arabian Gulf to participate in the carriage of aggregates from Fujairah to ports in the Northern Gulf. This is a joint venture with the Government of Fujairah, among others. In view of the rapid economic development in this region, we are optimistic about the prospects for this venture.

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In Conclusion

Pacific Basin in its various manifestations has had relatively few changes in senior management over the years but, as announced in January 2006, Mr. Mark Harris, our Chief Financial Officer from 1994 to 1996, Regional Chief Executive from 2000 to 2002 and since then Group Chief Executive, will be leaving us at the forthcoming Annual General Meeting in April. His departure is in line with his and our longer term planning and he remains a shareholder. We would like to express our sincere thanks for his valuable contribution to the development of Pacific Basin, especially through our Public Listings in 1994 and 2004. Investor relations, on which we place considerable emphasis, is one of his areas of special interest and the Group is now covered by 13 equity research departments of international banks and broking companies who issue regular updates on Pacific Basin to their customers. We wish Mark well for the future.

Our Executive Deputy Chairman, Mr. Richard Hext, who has already been responsible for our operating and commercial activities for almost a year, will take on the title of Chief Executive Officer and direct responsibility for our investor relations. We have every confidence that he is the right man to lead the Group through the next phase of its growth and development. He is a highly experienced shipping professional, has spent many years in Asia in senior management and he is very enthusiastic about his role and the Group's prospects.

Mr. Hext will be succeeded as Deputy Chairman by Mr. Daniel Bradshaw, who is a former partner of Johnson Stokes and Master, a leading Hong Kong law firm, and was vice-chairman of the Hong Kong ShipOwners Association for nine years. Mr. Bradshaw shall be appointed as Deputy Chairman and as a non-executive Director at the conclusion of the Group's Annual General Meeting in April. We warmly welcome Mr. Bradshaw to the Group.

Pacific Basin's style of shipping is intensive and time-consuming and we would like to thank our staff for their hard work, dedication and commitment which once more have been responsible for so much of what we have done well. We are most fortunate to enjoy their exceptional loyalty and endeavour. There are still areas in which we can improve our performance and we shall be looking hard at refining and developing existing practices. We are confident that our management team will invest the effort required to achieve our goals.

In conclusion, we should like to thank you for your support during the year and to affirm our positive outlook for the future. We look forward with some confidence to the remainder of 2006.

Christopher R. Buttery
Chairman

Hong Kong, 6 March 2006