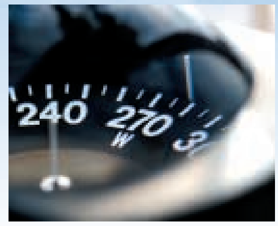
BUSINESS REVIEW AND OUTLOOK

Market Review

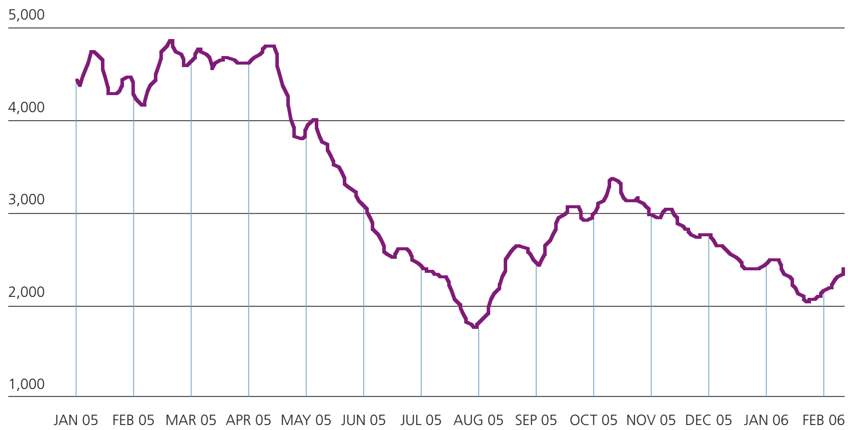
Following the all-time highs recorded in the previous year, 2005 proved to be another very exciting year for dry bulk shipping, driven again by strong demand from China for raw material imports. The Baltic Dry Index (BDI), which tracks spot freight rates for capesize, panamax and handymax (but not handysize) vessels, opened the year at 4,500 points. Although this was down from the very short-lived record of 6,208 points in December 2004 caused by a surge in demand for Chinese iron ore imports, the 4,500 level still reflected extremely buoyant market conditions with all dry bulk vessels earning very high rates.



These conditions persisted until mid-April when the market moved into decline. Although cargo volumes remained high in absolute terms, Chinese iron ore imports slowed as the market shifted from "inventory build-up" ahead of the 71% price increase on 1 April to "inventory usage" in the second quarter. This coincided with the normal seasonal slow down in other bulk cargo volumes and a consequent easing in port congestion, and a 3.5% increase in the supply of new dry bulk ships during the first half of the year, mostly in the larger sizes. As a result, the BDI dropped by about 60% over the next four months, falling to a low of 1,747 in early August. As expected, the market then recovered with the BDI moving above 3,000 points as we entered the fourth quarter of 2005. This rally, once again prompted by a surge in Chinese demand for iron ore (which reached a new record of 27.2 million tonnes in November), proved to be relatively short-lived and the BDI finished the year at 2,400 points.

THE BALTIC DRY INDEX

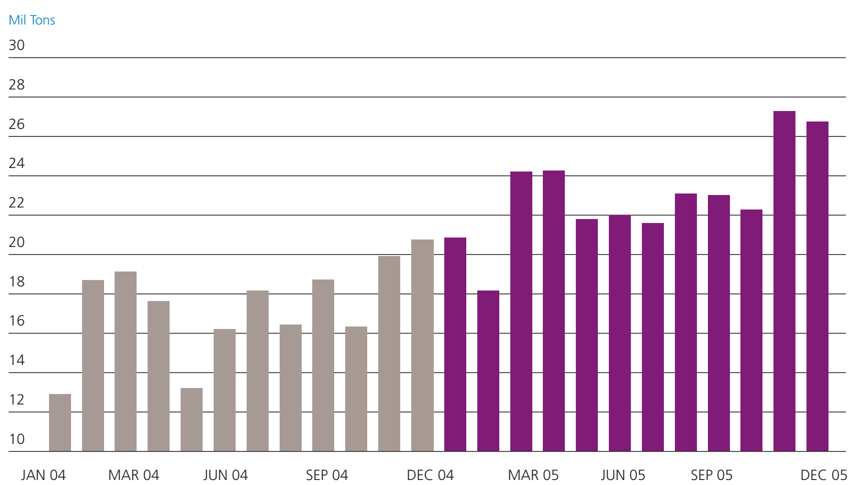
January 2005 to February 2006



(source: Bloomberg)

In the handysize market, rates have traditionally been much more stable than those for the larger vessels, whose spot earnings are tracked by the BDI. Handysize vessels generally benefit from a more diversified demand pattern due to the broader range of cargoes that they carry and a much lower level of newbuilding deliveries. 2005 was no exception and whilst rates followed the same overall pattern as the BDI they moved within a substantially narrower range. Spot rates of around US$18,000-20,000 per day were available for most of the first quarter and, in contrast to the 60% decline in the BDI, only fell to about

CHINA'S IRON ORE IMPORTS



(source: Bloomberg)

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US$11,000 per day in the slower summer period. From there rates recovered to US$15,000 per day before dropping back to about US$12,500 per day by the end of the year.

Returning to the overall market, its direction was mainly determined by the increasing supply of tonnage (on which more below) rather than by demand factors. The appetite for commodities not only remained strong but exceeded the record levels set in 2004. China dominated the iron ore market, effectively accounting for all of the net volume growth in 2005, with imports growing to 275 million tonnes in spite of the extraordinary 71.5% price hike that took effect from 1 April 2005. Whilst the volume increase of 32% was less than the 40% volume increase recorded in 2004, in absolute terms it represented an additional 70 million tonnes of cargo compared with the 60 million tonne increase a year earlier. Steel production in China continued to grow rapidly and annualised output for December 2005 was already running at over 380 million tonnes compared with 2005's actual production of just under 350 million tonnes. Regardless of the outcome of this year's iron ore price renegotiations, which will come into effect on 1 April 2006, we expect that China will again dominate iron ore import figures with the limiting factor on cargo growth likely to be production constraints as the major iron ore mining companies struggle to bring additional capacity on stream. The grain trades offered modest growth while coking coal and thermal coal showed healthy volume increases, with cargo volumes as a whole estimated to have grown by about 5% in 2005. The overall demand picture continues to look very healthy, with leading ship-broking analysts estimating cargo growth for 2006 in the region of 4-5%.

In contrast with the previous two years, when the supply side had been unable to respond to the pressure of rapidly rising demand, 2005 began to see a change. New vessels ordered in 2003 and 2004 started to deliver into the world's dry bulk fleet and over the year as a whole some 305 new vessels (23.2 million dwt) delivered, expanding the fleet by about 7%. With scrapping remaining at minimal levels, vessel supply growth exceeded demand growth for the first time since 2002. As expected, it was deliveries of the larger-sized vessels that dominated, with the capesize, panamax and handymax fleets each recording increases of 8-9%. In contrast, the handysize fleet grew by a little over 3%.

2005 Dry Bulk Fleet Changes

	Capesize			Panamax			Handymax			Handysize*		
	No	mm dwt	%	No	mm dwt	%	No	mm dwt	%	No	mm dwt	%
New deliveries	48	8.8	8.6%	92	7.1	8.2%	100	5.4	8.9%	44	1.4	4.0%
Scrapped	-2	-0.3	-0.3%	-3	-0.2	-0.2%	-3	-0.2	-0.3%	-9	-0.3	-0.8%
Net additions	46	8.5	8.3%	89	6.9	8.0%	97	5.2	8.6%	35	1.1	3.2%

Source: Clarkson Research

* *defined as 25,000–35,000dwt. Using Clarkson's wider definition of 10,000–40,000dwt, 65 ships of 1.9 million dwt delivered.*

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Whilst the new deliveries were sufficient to take the pressure off an overheated market and to reduce earnings, it should be remembered that rates continue to be supported at historically high levels providing owners who bought ships at the right point in the cycle with very good returns.

Events in the dry bulk sale and purchase market were rather different. Asset values had been moving up steadily during the latter part of 2004 in response to the much improved freight markets and tight supply conditions. Prices then surged in the first four months of 2005 in response to the strong freight market and purchase demand for ships spiralled upwards as a spate of newly created dry bulk companies sought public market listings in New York. By way of illustration, the price of a typical five year old panamax bulk carrier jumped 20% to over US$40 million between January and June 2005, even though prices had climbed some 45% during the second half of 2004 and freight rates were by then already on the way down.

From then on, values for second hand vessels and newbuildings came off their spring peaks, although in many cases this was notional rather than actual as transaction volumes, particularly of modern handysize bulk carriers, fell dramatically. It is only in the first two months of 2006 that we have seen asset values finally drop back to the levels seen in mid-2004, albeit with few transactions actually being concluded to confirm prices.

In the handysize market, prices also moved up sharply in the first quarter of 2005 , with a typical five year old 28,000dwt vessel reaching a price in excess of US$28 million at the peak in April/May. Due to the smaller order book and the older age profile of the world's handysize fleet, asset values have remained firmer than for larger vessels with very few modern ships coming onto the market for sale. A typical five year old 28,000dwt vessel is still likely to achieve a value in the region of US$23-25 million, some 10-15% higher than in late 2004 (in contrast to a five year old panamax being some 25% cheaper), despite freight rates being about 25% lower.

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As we look into 2006, much of the concern about the performance of the freight markets hinges on the size of the order book, which, before scrapping, is expected to expand the respective cape, panamax, handymax and handysize fleets in 2006 by 8%, 9%, 9% and only 3%, very similar to the levels seen in 2005. The actual performance of each of these sectors may well depend on how scrapping develops over the course of the year. Traditional scrapping patterns disappeared in 2003 with very little tonnage being sent for demolition in the last two years. Ships, however, are wasting assets. Their working lives can be extended at a cost in high markets but they cannot be kept going forever, no matter how good the economic environment and any further downward pressure on rates should result in an increase in scrapping activity. For the handysize market in particular, this provides a very significant underpinning as this is the sector where the average age of the fleet is the most advanced and where there are a lot of over-aged ships. There are now as many handysize ships over the age of 30 as there are ships on order and by the time those ships have delivered, another 15% of the fleet will have reached that milestone. Historically, the average age at which handysize vessels have been scrapped is 27.

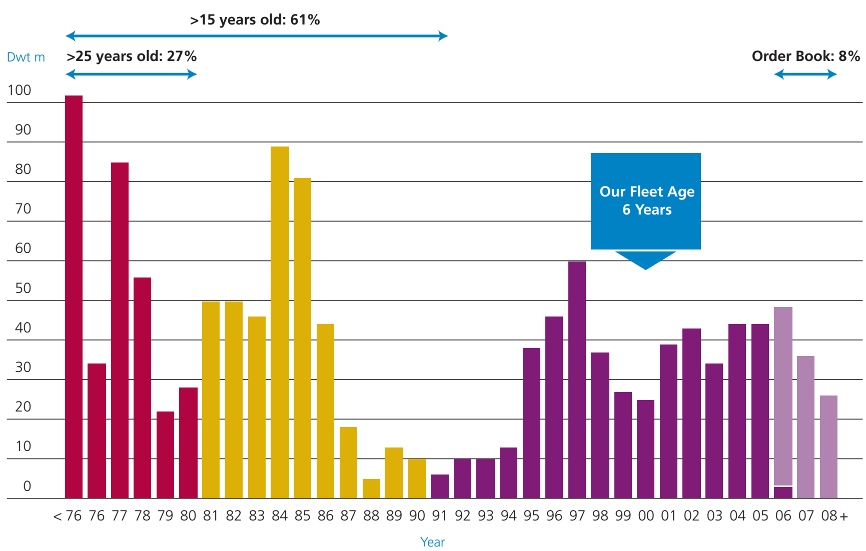
Order Book In Relation to Fleet Age Profile

	Orderbook (%)	Average Age	Vessels over 30	Vessels 25-29	Vessels 20-24	Total over 20 years
Capesize	23.9%	11.1	0.3%	1.1%	14.2%	15.5%
Panamax	22.8%	11.6	0.7%	4.2%	19.3%	24.2%
Handymax	18.7%	11.3	1.1%	4.5%	16.8%	22.4%
Handysize*	8.8%	17.7	8.4%	18.6%	26.1%	53.2%

Source: Clarkson Research

**defined as 25,000-35,000dwt*

SUPPLY: AGE PROFILE OF GLOBAL HANDYSIZE FLEET (within 25-35K segment)



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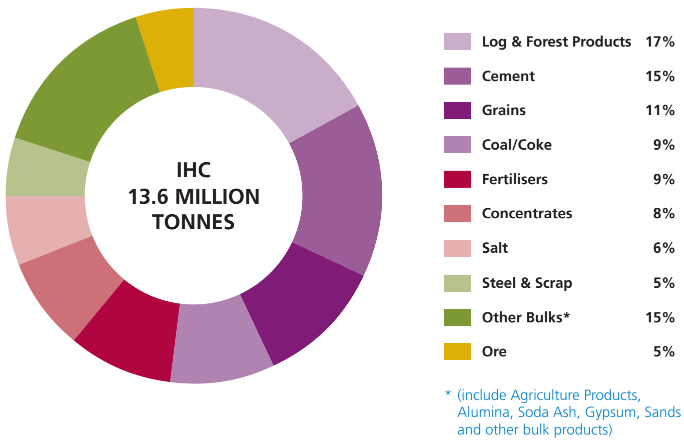
Chartering and Cargo Operations

Pacific Basin specialises in offering freight services directly to the world's leading industrial and commodities companies. Our vessels carry a broad range of dry bulk goods, with forestry products, cement, grains, coal and petcoke, fertilisers and concentrates being the most significant, for a diverse group of customers who look to Pacific Basin for the safe, reliable and efficient management of the sea-borne leg of their supply chain logistics. To deliver this service it is essential that we operate a fleet of modern vessels of uniform size and design specifications supported by a comprehensive network of offices staffed by highly experienced industry professionals.

During 2005 our International Handybulk Carriers Pool ("IHC") carried 13.6 million tonnes of cargo, up 28% from the 10.6 million tonnes carried in 2004. We recorded good growth in the shipment of most commodities, particularly zinc/lead/copper concentrates and cement for the construction industries. The growth in the volume of metal concentrates we carried last year results from strong Asian demand coupled with closer relationships with the exporting mining companies, who prefer to ship their high value commodities on reliable modern ships, where no extra cargo insurance is incurred. In the cement trade we continue to see good growth in imports to the US due to strong demand and the fact that no new local cement production capacity of significance has been added in the last few years due to environmental concerns.



Our core business continues to be focused on ports in the Pacific with around 75% of our cargoes being loaded or discharged in this region. Ports in Australia, New Zealand and the west coast of North America account for over 50% of all cargoes loaded. Our ability to service the needs of our customers in these key front-haul jurisdictions, where environmental, safety and regulatory requirements are amongst the toughest in the world, without disruption or delay, is critical to our success. The 50% volume growth in our liftings from Australia which we recorded in 2005 was particularly encouraging as we expanded our customer base and the range of cargoes carried from that market.

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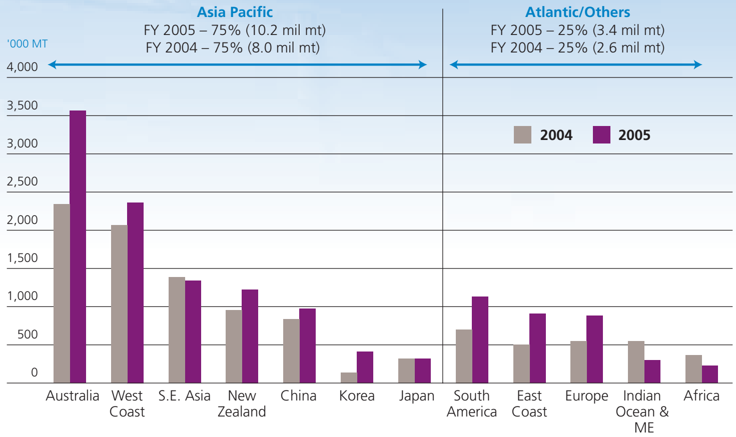
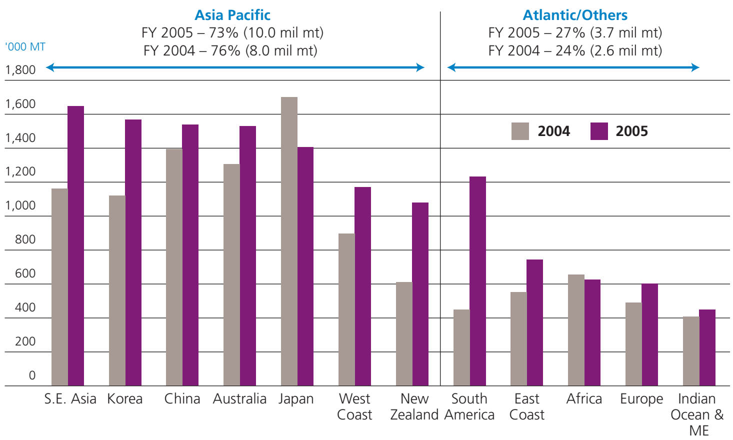
LOAD AREAS



DISCHARGE AREAS



Although China dominated the headlines for the shipping market as a whole, it was one of many delivery destinations for our vessels, accounting for only 11% of total cargo discharged in 2005. Thus, while we are extremely optimistic about future volumes of cargo both into and out of China and expect our share of China trade to increase, our exposure to this market currently is modest. A reduction in the volumes we carried into Japan was more than offset by the expansion achieved in Korea as a result of our increasing market share of the Korean log and metal concentrates import trades. The reduced volume into Japan should be viewed in the light of our record volume in 2004 and Japan continues to be one of our largest delivery destinations.

An integral part of our Group's operating strategy is to carry back-haul cargoes whenever these can be successfully combined with front-haul cargoes to improve our overall fleet utilisation. We thereby enhance our revenues and are able to offer our customers more attractive rates because these voyages reposition our vessels back to our prime front-haul loading areas whilst carrying revenue-generating cargo, thus reducing the number of days the vessels spend in ballast. Successful scheduling of consecutive, cargo-carrying voyages whilst continuing to deliver a prompt and reliable service to our front-haul customers requires a high degree of planning and co-ordination between our regional offices and a high level of operational efficiency. This can only be achieved with a large fleet of standardised, modern vessels that afford the necessary level of scheduling flexibility. 2005 was another year of progress in this area as we expanded our deliveries of cargo into New Zealand, Australia, south-east Asia and the west coast of North America by some 1.5 million tonnes. We now estimate that our ships are carrying cargo 86% of the time at sea, up from 84% in 2004. At the same time, however, it is essential that we maintain a tight grip on the overhead base that we carry relative to the service level we provide and we aim in 2006 to reduce our expenses overall without penalising our service offering.

With an average of 39 handysize vessels in operation during the year, the fleet produced 14,200 revenue days generating average earnings of US$17,100 per day, compared with an average of 27 handysize vessels in operation during 2004 which provided 9,900 revenue days generating average earnings of US$17,900 per day. The ability to achieve relatively steady average revenues on an expanded fleet reflects the greater stability that prevails in the handysize market and the advantages derived from our policy of booking cargo contracts for a significant portion of our forward revenue days. This business model means that we do not always receive the highest revenues for certain cargo contracts, scheduling and routings taking precedence over rates on a number of occasions.

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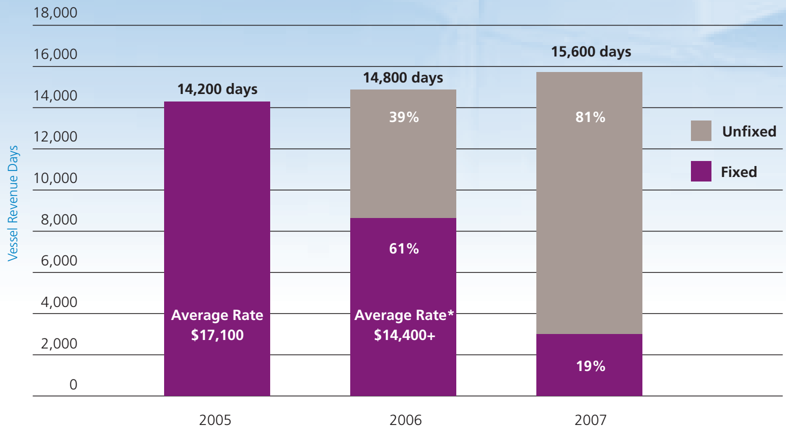
During 2005, we incurred 5.7 days per vessel of offhire in respect of our handysize fleet relative to 5 days budgeted. We have taken steps to strengthen our management team in this area and made it a key management task to reduce such offhire.



* Includes an estimate of the uplift to be achieved above the basic contract rates from efficient cargo execution

For 2006, the current handysize fleet (with no allowance for any potential fleet expansion) is expected to provide 14,800 revenue days, up 4.2% from 14,200 days in 2005 as three newbuildings deliver into the fleet during the year. As at 24 February 2006 we have charter and cargo contract cover in place for 61% of those days at an average rate of US$13,400 per day. This rate only reflects the averaging of the basic rates in the underlying contracts and we would expect to achieve in excess of US$14,400 per day on our contract-covered revenue days once the US$1,000-1,500 per day benefit of reducing ballast time through the efficient combination of cargoes and front-haul and back-haul voyages has been included. Furthermore, our handysize revenue days expand by 5.4% to 15,600 in 2007, where we already have cover in place for 20% of those days, and by a further 9.6% to 17,100 days in 2008 where our cargo book is just beginning to emerge. Again, this only reflects the fleet today and newbuildings currently on order and does not take into account any potential additional expansion that might be undertaken.

Towards the end of the year, we took steps to establish our presence in the handymax market. This move was in response to an increasing number of requests from our handysize customers to provide a similar level of service for those of their other cargoes that are suited to handymax vessels. To meet this need, we have established a team of seasoned chartering and operations personnel in our Hong Kong, Shanghai and London offices. In the short term, this activity will be run as an operating business by taking cargo contracts that are then performed by chartering vessels from the market supported, where appropriate, by the limited use of freight futures agreements to manage the overall balance between ships and cargo. We booked our first contract of affreightment and chartered in two vessels for one year and two vessels for three months in December, and have subsequently taken an additional two short period vessels. At the same time we have taken in a number of cargo contracts so that our overall year-end position was that we had more cargo than ships on our books. As our activities in this area are in their start-up phase our initial objectives are to establish our position and credentials in the market. It is therefore likely to be some time before we have sufficient long term cargo contracts to support the need to purchase handymax vessels. We have been encouraged by several recent approaches by handymax owners who are interested in potential co-operation with us. Following the success of the IHC Pool, we have therefore decided to establish a handymax pool under the brand name "IHX".

In October we entered into an agreement with a Chinese shipping company, backed by one of the largest power producers in China, to charter one of our older handysize vessels, the Stewart Island, to them for use in the carriage of domestic coal. The vessel is 10 years old and has been bareboat chartered out for almost eight years: the transaction is accounted for as a sale. We believe that this is the first time a foreign owned bulk carrier has been chartered into a Chinese flag, coastal trade and

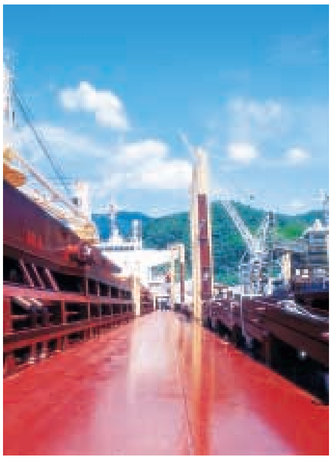
BUSINESS REVIEW AND OUTLOOK

this marks the beginning of what we anticipate will be greater access for us as an international company into Chinese domestic commodity trades. Given that this vessel is now deployed on long-term bareboat charter, rather than in our IHC Pool activities, this vessel is now excluded from the statistics quoted on handysize fleet revenue days and average rates.

We see real opportunity to develop our business in the Middle East. In July, we decided to dedicate two vessels to operate in a new service between Australia/New Zealand and the Arabian Gulf. This resulted in a number of new contacts for us and in January 2006 we established a joint venture with the Government of Fujairah, among others, to operate a business carrying aggregates from Fujairah to ports in the northern gulf. This is initially a handysize business but has the potential to become a handymax business in future. We see a number of new opportunities ahead.

Fleet Development

At the start of the year, the Group operated a fleet of 45 vessels (comprising 44 handysize vessels and one handymax vessel) and we had a further six newbuildings on order (five handysize and one handymax). At that stage we had hoped that we would be able to expand the fleet by making a number of vessel purchases but, for reasons explained in the Market Review above, asset values moved up very sharply in the first quarter and we decided not to buy vessels unless there were special circumstances. In the event we only acquired four second hand vessels (of which one delivers in the third quarter of 2006), each in private, off-market transactions where we were able to leverage our relationships with Japanese owners. We also took delivery of two handysize and one handymax newbuildings during the year. With charters expiring on two vessels, our fleet in operation at year end had therefore increased by five vessels or 11% to 50 vessels , comprising 48 handysize and two handymax. Although this fleet expansion was lower than our original target, asset values in 2005 were too high and we believe the right course of action was for us to be patient, conserving our shareholders' funds for times when asset values are cheaper and will therefore provide superior long term returns.



First class service to our customers backed by our large fleet of modern, uniform vessels is a critical part of our handysize operating strategy. With an average age of six years, we believe that ours is the largest fleet of modern, handysize vessels in the world. To maintain this pre-eminent position, we extended our newbuilding programme by placing orders for six new handysize vessels and taking a seventh vessel on long term charter from the date of her delivery in February 2006. Three of these vessels are being constructed at the traditional yards for this vessel type in Japan and will add to our core fleet sizes of 28,000dwt and 32,000dwt.

Significantly, however, we also placed an order with Jiangmen Nanyang Shipyard in southern China for four, very competitively priced 32,000dwt vessels with options over two more, with the first scheduled to deliver in early 2008. This is the first time in ten years that we, as a management team, have chosen to order handysize vessels in China and follows more than two years of work in identifying a yard that has both the willingness to build handysize bulk carriers to international standards and the financial strength to meet our requirements for first class vessels at attractive prices.

Accordingly our newbuilding order book at 31 December 2005 stood at ten vessels, with three delivering in each of 2006, 2007 and 2008 and one in early 2009 which allows us to continue our steady fleet expansion and maintain our characteristic modern, uniform fleet profile.

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Fleet Changes	Owned	Chartered	Managed	Total
Handysize – in operation				
As at 1 January 2005	33	7	4	44
Newbuildings delivered	2	–	–	2
Second hand purchases#	4	–	–	4
Sale and charter-back	(22)	22	–	–
Charters expired	–	(2)	–	(2)
As at 31 December 2005	17	27	4	48
Handysize – newbuildings				
As at 1 January 2005	4	1	–	5
Newbuildings delivered	(2)	–	–	(2)
Sale and charter-back*	(2)	2	–	–
New orders	6	1	–	7
As at 31 December 2005	6	4	–	10
Handymax – in operation				
As at 1 January 2005	1	–	–	1
Newbuilding delivered	1	–	–	1
Sale and charter-back	(2)	2	–	–
As at 31 December 2005	–	2	–	2
Handymax – newbuildings				
As at 1 January 2005	1	–	–	1
Newbuilding delivered	(1)	–	–	(1)
As at 31 December 2005	–	–	–	–
Total Fleet at 31 December 2005	23	33	4	60

* *Transactions will be effected on vessel delivery, expected to be in November 2006 and August 2007, at which point the vessels will be treated as sold for accounting purposes*

\# *Includes one vessel for delivery in the third quarter of 2006*

During the year we also undertook a significant restructuring of the fleet's financing arrangements through a programme of selling and chartering back vessels. Transactions covering 22 handysize vessels and both handymax vessels were completed, of which 17 are classified for accounting purposes as finance leases and seven are classified as operating leases. Our 17 sale and leasebacks raised cash proceeds of US$318 million accompanied by lease liabilities of the same amount which will be paid down over the life of the leases, and our seven sale and time-charter backs raised proceeds of US$140 million which we used to pay down our conventional debt. As a result, all the ships in the owned fleet as well as the installments to date on our six owned newbuildings are debt free. Total capital commitments in respect of the remaining payments on these six ships and on 'Ocean Bulker' (a second hand 28,500dwt vessel which joins the fleet in the third quarter of 2006), are US$159 million. In addition, transactions for the sale and time-charter back of two handysize newbuildings have been completed and these vessels will treated as sold for accounting purposes from their respective delivery dates, expected to be in November 2006 and August 2007.

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Whilst these transactions have allowed us to release substantial amounts of capital back into the business we have, at the same time, been able to preserve the scale and profitability of our operations as the vessels have been chartered back for periods of up to 12 years at rates that are competitive with the cost of ownership. Furthermore at the end of December 2005, we held options to purchase 24 of the 27 chartered handysize vessels, both of the chartered handymax vessels and all four of the chartered newbuildings. These options should hold significant hidden value for the Group by allowing us to preserve our fleet size and the scale of operations at the expiry of the charters and the same level of flexibility to manage the size and structure of the fleet during the period of their charters as if we had remained the owner of these vessels.

All 48 owned, chartered and managed handysize vessels are now operated through our IHC Pool and it is expected that our handysize newbuildings will expand this service when they deliver. Our two handymax bulk carriers remain on long term charter to a major Chinese shipping company. Having sold and chartered them both back, all of the capital invested in those vessels has been released whilst leaving the company essentially cashflow neutral from an operating perspective.

Dividends

The Group's policy to pay out by way of interim and final dividends not less than 50% of profits available for distribution in each financial year, and more than this when circumstances permit, remains unchanged. The Board is therefore recommending a final dividend of 35 HK cents per share for the year ended 31 December 2005 (2004: 16 HK cents) to be paid on 13 April 2006 to the shareholders of the Company whose names appear on the register of members on 7 April 2006. The register of members will be closed from 4 to 7 April 2006 (both days inclusive) during which period no transfer of shares will be affected. In order to qualify for the proposed final 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, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong, not later than 4 p.m. on 3 April 2006. The ex-dividend date for the final dividend will be on 31 March 2006.

When the proposed final dividend of 35 HK cents per share is aggregated with the interim dividend of 30 HK cents per share (2004: 8 cents per share), the total payout of 65 HK cents per share (2004: 24 HK cents) represents 73% of the Group's profits for the year ended 31 December 2005 (2004: 56%). The distribution of an additional 23% of profits above the 50% minimum payout level is equivalent to 20 HK cents per share and reflects the strong results of the Group for the year, the financial strength of the business following the sale and charter back programme and the certainty over 2006 revenues that is derived from the level of cargo cover already arranged.

Retained profits carried into 2006 (after allowing for the proposed final dividend) are US$68 million and equate to approximately 41 HK cents per share given the current level of issued share capital. Based on this and on the level of committed revenues for 2006, the Board believes that the Company should be able to continue to declare dividends above the 50% pay out level in 2006 and 2007 and believes that it is reasonable to expect such dividends in 2006 will be not less than 40 HK cents per share in aggregate, although the exact level of payout will depend on the results and overall financial position of the Group at the time dividends are declared.

Outlook and Prospects

In comparison with the exuberance of 2004 and 2005, the dry bulk market overall started 2006 in more subdued fashion with uncertainty over the outcome of the current iron ore price negotiations and both the iron ore producers and the Chinese importers engaging in propaganda warfare. That

BUSINESS REVIEW AND OUTLOOK

said, rates in the handysize market, whilst down on this time last year, have been very profitable, with recent Pacific spot market rates in excess of US$13,000 per day.

The fundamental demand factors that have driven the market for the last two years still appear to be intact. The recent rises in US dollar interest rates are symptomatic of a world economy that is strong and growing. Beyond this, the rate of development of China's own internal infrastructure and its position as the world's out-sourced manufacturing base continues to impress and this should support a good volume of dry bulk commodity shipments. We remain very confident about China and the demand picture for bulk shipping.

On the supply side, all the key sectors of shipping (tanker, container and dry bulk) continue to order new tonnage such that shipyard order books remain full for the next three years. Whilst this means that the risk of unexpected, additional supply coming into the dry bulk market is small, the current order book of new deliveries in 2006 for larger dry bulk vessels is still likely to mean that rates on average are lower than those achieved in 2005. But for the handysize market, the situation is arguably more positive. Although there will be some psychological pressure on rates from the larger sizes, 102 handysize ships are now over 30 years of age and a further 225 ships are over 25 years of age with only 36 ships due for delivery in 2006. Any meaningful downward pressure on rates should be tempered by the renewal of scrapping and prevent any sustained downturn.

Meanwhile we are maintaining our policy of taking cover for a substantial portion of our available revenue days to preserve stability and predictability in our operating revenues and cashflows and 61% of our revenue days for 2006 are covered at rates which, upon execution, should yield in excess of US$14,400 per day. A relatively small remaining exposure to the spot market, a fleet of modern ships and a blue chip customer base allows us to have a high degree of confidence about our 2006 performance.

Without any further purchases, our current newbuilding programme means that our fleet will grow by 20% over the next three years. In addition, our sale and leaseback programme has released a significant amount of capital back into the business and given us the platform to expand the fleet further when we feel that asset prices support acceptable long term returns. Such expansion could be achieved without using our operating cashflows and would therefore have no impact on our ability to maintain a strong policy of dividend distributions.

The likely performance of the dry bulk freight market in 2006 overall in the face of substantial newbuilding deliveries is less predictable than has been the case for the two previous years and periods of softer rates which may also affect our sector cannot be ruled out. However, the economies of China and India continue to develop and, as Japan's economy emerges from a long period of weakness, we are confident that strong demand will remain a feature of dry bulk shipping. In the handysize sector, the average age of the world fleet, at 18 years, is the oldest of any sector of dry bulk shipping, there are many over-age ships that need to be scrapped and too few new ships on order to replace them. The world's shipyards prefer to build larger or more complex ships and we do not see this issue being resolved in the near future. When scrapping returns, as it must, supply growth will be minimal or there could be a return to periods of net fleet reduction. We are therefore of the opinion that the handysize market offers the best and most reliable long term returns of any sector of dry bulk shipping, although it is unlikely to be immune from possibly negative influences of the overall market from time to time.

Given the success of our operating model, our fleet of uniform, modern handysize bulk carriers, the supply constraints existing in the handysize bulk carrier market and the strength of our balance sheet, we look forward with confidence to 2006.