Chairman’s Statement

Pacific Basin continues to provide seaborne freight services to many of the world's leading commodities and industrial companies as its main business. The Group had a generally satisfactory 2006, although profits decreased by 25% to US$110.3 million and basic earnings per share by 28% to HK 65 cents from the very strong 2005 results. This was due to the quieter dry bulk shipping market in the opening months of the year, which produced a first half profit of only US$36.4 million compared to US$73.9 million in the second half. Turnover increased by 43% to US$620.4 million and cargo carried by 59% to 21.1 million tonnes.

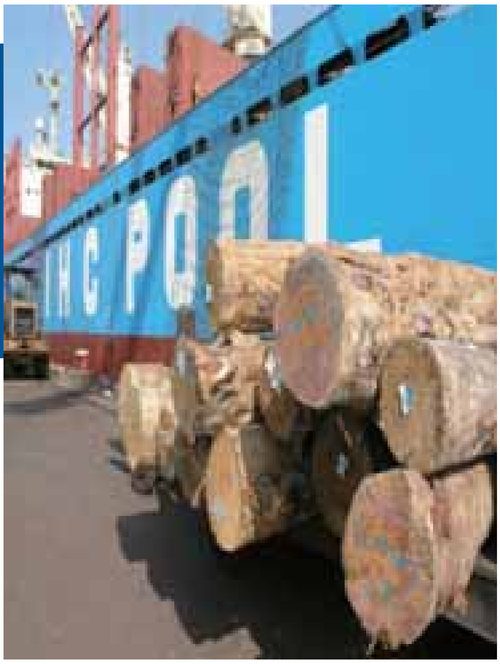
Given the Group's steady performance in a more variable year for freight rates and in anticipation of continued growth in seaborne demand for dry commodities the Board has recommended a final dividend of HK 22.5 cents per share, bringing the total for 2006 to HK 42.5 cents per share. This represents a 71.2% payout ratio (2005: 73.1%). With an encouraging start to 2007, and 58% of our 2007 handysize revenue days already covered at about US$17,000 per day (including an assumed US$1,000 "execution premium"), the Board has reaffirmed that it expects to maintain its dividend policy at a minimum of 50% of annual distributable profits.

Highlights of the year included: (a) a reassessment of the direction of the market in the spring which led to the purchase of a number of vessels at reasonable price levels before the uptrend in demand became too apparent; (b) the subsequent development of a very robust bulk shipping market from the summer; and (c) the raising of US$154 million of new equity in the autumn against a backdrop of favourable financial and freight markets.

Pacific Basin has made commitments totalling US$354 million in 10 second hand vessels and five newbuildings during 2006. Our core fleet on the water grew by 14 vessels (or 28%) to 64 vessels and will be augmented by four to be delivered in 2007, five in 2008, and a further four in 2009, based only on commitments to date. This brings the total to 77 including 13 newbuildings of which seven are on order from established Japanese yards and six from Jiangmen Nanyang Shipyard in Guangdong, China. Including the ships on short term charter, the current overall total fleet is almost 100.

During the year we sold two older ships with three year charter backs in order to maintain the low average age and uniform quality of our fleet without sacrificing vessel days during the period 2007 to 2009.

As a result of the stronger freight market, dry bulk vessel prices have continued to rise, and whilst still confident that favourable conditions will prevail in our sector, we have chosen to adopt an opportunistic approach to further acquisitions for the present. Beyond our tonnage portfolio, we are also evaluating maritime infrastructure investments including dry cargo terminals in China where potential longer term returns look attractive.



The handysize dry bulk sector in which Pacific Basin predominantly operates continued to show some of the strongest fundamentals of any shipping sector in 2006. The 25,000-35,000 deadweight world fleet has the oldest age profile of any dry bulk or other major cargo ship type, with vessels averaging almost 18 years. According to Clarkson, 23% of the fleet (279 out of 1,217 vessels) is at or over 27 years old, which is the historical average scrapping age. Against this, the handysize orderbook has risen year on year to 15% (180 vessels) of the existing fleet, but most of the new orders are for delivery after 2009 because shipyards are full in the near term. As a result we can expect only very modest overall handysize fleet growth in the next few years. Pacific Basin continues to own and operate one of the most modern (average age just over six years) shallow draft, craned (or "geared") dry bulk fleets, capable of loading and discharging many different cargoes at most ports worldwide.

The handymax sector in which we own only two ships and rely heavily on chartered in tonnage shows fundamentals more in line with the overall dry bulk fleet, with an orderbook standing at 23% and an average vessel age of 11.5 years. These vessels which are larger (40,000 to 60,000 deadweight tonnes) than handysizes are geared and versatile. Although they carry a narrower range of cargoes than handysize they are still able to access many ports unsuitable for panamax and capesize bulk carriers.

Overall, the dry bulk freight rate outlook remains very positive as a result of the vigorous demand for raw materials from China and other developing economies and the increasing distances that cargoes are shipped as Asian economies have to look further afield to satisfy their sourcing needs.

Against this background, 2006 witnessed a further expansion of our International Handybulk Carriers ("IHC") and International Handymax Carriers ("IHX") pools. Although handysize remains our core business, the new handymax division saw its first full year of trading and has grown to become a significant operator in its sector. Despite losing money (partly as a cost of entry, partly by misreading the market early in the year), its current position indicates that it will be profitable in 2007. With our hedging of positions, future progress will be dependent less upon our market forecasting than on good operations and the success we have in customer relationships, leading to the securing of complementary cargoes.

Customer service is a high priority for everyone at Pacific Basin. Our chartering, operations and technical teams work hard to secure efficient, safe passage for the growing volume of commodities which we carry. Satisfaction of the high expectations of our principal charterers is vital to our success and we will endeavour to make further improvements to the quality of service we provide.

Environmental awareness is also of vital importance to Pacific Basin. We operate a relatively young, and therefore fuel-efficient, fleet and the Group has maintained certification to the ISO 14001 environmental standard of Lloyds Register Quality Assurance since 2005. Management is going beyond these standards to implement new environmentally sound practices on our vessels where practicable, and we are aware that there is always more that can be done.

The Group has grown considerably over the past year and now employs 260 shore based staff around the world, as well as over 1,000 seafarers who man our owned fleet. In 2006 we opened offices in Fujairah, Dubai and Beijing, and further expansion of the network is planned.

China and the Middle East are two key regions of great business potential. Our new office in Beijing is well equipped to build cargo and corporate relationships and has already negotiated the contribution of tonnage by China's largest power producer to our IHX Pool. In Dubai, we have a new regional presence to add to our existing joint venture with the Government of Fujairah and others in the trading and shipment of aggregates. This joint venture saw an encouraging first year and extended its activities to include tug and barge transportation, loading cargoes from Fujairah over its own long-term leased wharf facilities.

Pacific Basin's activities are management intensive, requiring skill and dedication to extract the maximum benefit from our existing business and the development of our new ventures. Led by Mr. Richard Hext, Chief Executive Officer, the team has been strengthened by the arrival in September of Mr. Klaus Nyborg, formerly of TORM, as Deputy Chief Executive Officer. In the same month the Board was joined by Mr. Wang Chunlin, formerly Assistant President and Managing Director of Shipping at Sinotrans, who now heads our China maritime infrastructure team. Mr. Jan Rindbo, who manages our handysize business, has been invited to take the Board seat of Mr. Paul Over, who is resigning from the Board in April. Mr. Over has played an important role in the development of Pacific Basin since its inception and we are pleased that he will remain close to the Group as a Senior Advisor.

We now have a well balanced and very competent team, paving the way for a reduction in my executive duties in due course in favour of more exclusively strategic responsibilities. With this in mind, my renewed contract (from 1 April) provides for a transition to a non-executive role at the appropriate time.

Our staff, both at sea and ashore, have accepted the challenges presented to them and have worked imaginatively and persistently to achieve the desired results. They take great personal pride in their responsibilities, for which we are very fortunate. Recognising this effort and the importance of retaining high quality staff in this buoyant shipping market, we plan to extend the scope of our Company's Long Term Incentive Scheme to include a broader range of key individuals. This will also help us to further align the interests of our staff with those of our shareholders.

Thank you for your support and confidence in our Company over the past year. 2007 has begun well and we will continue to do our best to create value for all our shareholders from the opportunities that lie ahead.

Christopher R. Buttery
Chairman

Hong Kong, 5 March 2007