Business Review and Outlook

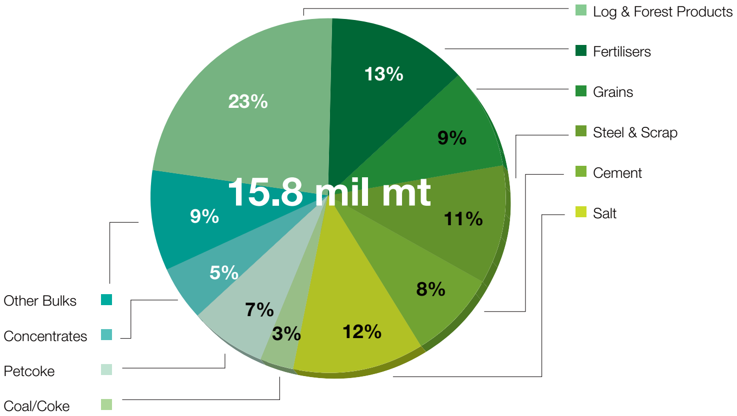
Handysize

Our International Handybulk Carriers ("IHC") Pool operates one of the largest modern handysize fleets in the world and specialises in offering freight services to leading industrial end users of handysize ships. IHC operates its fleet on a network of complementary trade routes that, in combination, minimise our empty – or 'ballast' – time. Fleet scale and a tight chartering operation enhance earnings whilst allowing IHC to offer its customers attractive rates and frequent, reliable service. The average age of IHC's fleet is just over six years versus a sector average of 18 years, a most important factor in helping IHC deliver reliable service. The recent boom in commodity markets has influenced a trend towards 'just-in-time' delivery of raw materials as companies limit their cargo stockpiles. Late delivery of cargo can result in a costly plant shutdown, and our customers therefore insist on punctual and reliable service, which IHC must deliver. IHC's staff are located in a comprehensive network of offices around the world, providing customers with dedicated sales and operational services in their respective time zones.

During 2006 IHC carried 15.8 million tonnes of cargo, up 17% from 2005. IHC recorded good growth across most of the commodities carried, but in particular the division saw strong increases in the volumes of steels (up 67%) and metal concentrates (up 43%) shipped in 2006. The increased volumes of these commodities

IHC
International Handybulk Carriers

Handysize Cargo Volume 2006



reflect robust demand from the construction industry around the Pacific Rim as well as IHC's close ties with customers in this sector. Whereas the IHC fleet handled over 75 different individual commodities in 2006, its top five commodity groups were forest products, cement, grains, fertilisers and metal concentrates, which together accounted for 54% of the total volume carried. The wide range of cargoes carried demonstrates the versatility of handysize ships and their ability to produce

more stable earnings than larger dry bulk ships, which carry a much narrower range of commodities.

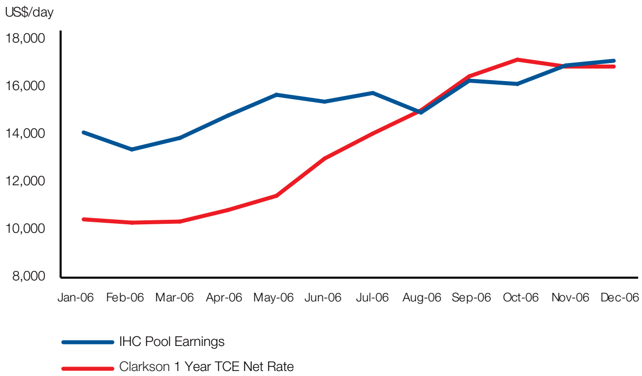
Handysize revenue days increased 15% year on year to 16,420. This resulted from the growth of Pacific Basin's 'core' owned and long term chartered fleet to meet customer demands.

The trading pattern of IHC's fleet continues to focus on the Pacific Rim, where about 80% of its vessels are employed. IHC's core trades are centred around the carriage of "front haul" cargoes to the high growth countries in Asia from the resource-rich regions of Australia, New Zealand and the west coast of North America. An integral part of its operating strategy is to position ships back from Asia carrying revenue-generating "back haul" cargoes, thereby reducing the number of days that vessels spend in ballast. Our success with this strategy is reflected in the cargo volumes delivered to Australia, New Zealand and the west coast of North America, which are up by almost 50% year on year to a record 34% of all cargo discharged on IHC ships. IHC's ballast time in 2006 amounted to 14% of total fleet days, in line with 2005.

China's importance for dry bulk shipping is growing fast, but not merely as a major importer of raw materials. In 2006 China emerged as a major supplier of cement and steels to the world market as local production capacity outstripped local consumption growth. This is reflected in the volumes of cement and steels carried by IHC out of China in 2006, up 69% and 65% respectively from 2005.

The primary aim for IHC is to secure premium earnings for Pacific Basin and its pool partners on their respective handysize fleets, and to provide a degree of certainty in forward earnings through longer term cargo cover. Against the average Clarkson one year time charter rates (although this may not be a perfect comparison), IHC outperformed the market in 2006 by approximately US$1,800 per day. High asset utilisation was a key contributor to this strong financial performance. Furthermore, through improved technical management and crewing, we were able to reduce our fleet off-hire days for 2006, excluding drydocking, to an average of 0.3 days per vessel (2005: 5.4 days).

**IHC Pool Earnings Versus Clarkson
1-Year Time Charter Equivalent Earnings (TCE)**



Source: Clarkson

In order to manage its risk profile and maintain earnings visibility, IHC has taken advantage of the recent development of a market in derivative Forward Freight Agreements ("FFAs"). FFAs allow IHC to hedge part of its forward freight exposure, where a ship is not yet booked with a 'physical' cargo contract. Due to its large core fleet, IHC has more ships than cargoes and typically sells FFAs as a proxy for physical cargoes. The table on the following page shows IHC's current paper contracts, which comprise only a small proportion of its total exposure.

During 2006 we achieved net earnings of US$15,420 per day over our 16,420 handysize revenue days. As of 28 February 2007 we had covered 58% of our 20,190 handysize days for 2007 at an average rate of about US$17,000, including an expected "execution premium" of US$1,000 per day, and we have already made a good start on building our cargo cover for 2008 and 2009. Our "execution premium" is the uplift that we achieve in our actual daily earnings over the average of the rates embedded in our contracts with our customers by combining contracts and short term chartered tonnage in such a way as to minimise actual empty time and to maximise our yield: this is a critical part of our business model.

The following table sets out IHC's fleet revenue days and cover rates in 2006–7:

Handysize Vessel Activity Summary	Unit	FY 2006	FY 2007
Cargo Commitments			
Revenue days	days	16,420	10,450
Net paper contracts	days	–	1,280
Equivalent revenue days	days	16,420	11,730
Daily TCE	US$	15,420	17,000
Ship Commitments			
Revenue days	days	16,420	20,190
Net Position			
Cargo as % of ship commitments	%	100%	58%

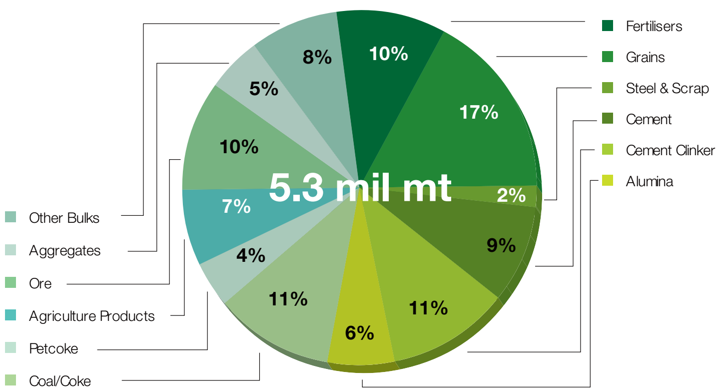
Handysize FFA Activity Summary	Unit	FY 2006	FY 2007
FFA paper sold	days	–	1,420
FFA paper bought	days	–	–
Net realised paper exposure	days	–	140

		31 December 2006	28 February 2007
Net FFA paper sold	days	–	1,280

IHX

International Handymax Carriers

Handymax Cargo Volume 2006



Handymax

This has been the first full year of operations for Pacific Basin's handymax division. We have set out to build a profitable and capable International Handymax Carriers ("IHX") Pool in both the Atlantic and Asia Pacific regions, co-ordinated from our offices in London and Shanghai. IHX commenced operations in early 2006, losing no time in building customer relationships and expanding its book of cargo contracts.

The division made a start up loss during the year of US$4.1 million, including realised losses of US$4.7 million on FFA positions mainly taken in the first quarter of the year and locked in during the second quarter. In addition, on the back of a strengthening freight market, at the year end the division has an unrealised loss of US$2.0 million on its FFAs which will close in 2007 and will be compensated for by the higher freight rate on our physical vessels.

IHX was set up in response to customer requests for Pacific Basin to cover their handymax as well as their handysize freight transportation needs. In order to achieve this, the division initially capitalised on existing close relationships with customers either directly or via our regional group offices, and then went on to develop relationships with new customers. Like IHC, IHX combines front and back haul routes in order to minimise vessel ballast time. IHX also makes limited use of FFAs to hedge its freight market exposure, especially when suitable cargo cover is not immediately available.

IHX is now a complementary, integrated, and growing part of our total business. Cargo volumes rose from 1.2 million tonnes in the first half to just over 4.1 million tonnes carried in the second half of 2006, bringing the first year total to about 5.3 million tonnes.

The top five groups of commodities transported by IHX are agricultural products and grains, cement and clinker, coal, iron ore and fertilisers. Other key commodities include alumina, concentrates and petcoke. About 60% of these cargoes move within the Pacific and 40% within the Atlantic. The single largest load region is South East Asia, whilst the single largest discharge region is the Indian Ocean and Middle East. IHX loads and discharges nearly 10% of its total volumes in China.

IHX commenced servicing its customers using short term chartered in vessels, and now has 18 vessels on charter for maximum periods of up to 12 months. During the course of the year IHX has also chartered in a number of vessels for longer durations, and two handymax vessels were purchased and delivered to the fleet during the third quarter. The IHX Pool has seen further tonnage growth from two external owners who contributed two vessels during the fourth quarter. Subject to market conditions, we anticipate further fleet growth during the next 12 months.

During 2006, our first year of handymax operations, we contracted a total of 5,050 days and achieved net earnings of US$16,330 per day. These figures also include two handymax vessels fixed on five year charters, commencing in 2004 and 2005, outside the IHX Pool, which reduce the overall average daily net earnings by US$1,330. As of 28 February 2007 we had 5,040 handymax revenue days committed for 2007 and have already secured average cover levels of US$21,560 per day on 97% of these days.

Handymax Vessel Activity Summary	Unit	FY 2006	FY 2007
Cargo Commitments			
Revenue days	days	5,050	4,410
Net paper contracts	days	–	460
Equivalent revenue days	days	5,050	4,870
Daily TCE	US$	16,330	21,560
Ship Commitments			
Revenue days	days	5,050	5,040
Net Position			
Cargo as % of ship commitments	%	100%	97%

Handymax FFA Activity Summary	Unit	FY 2006	FY 2007
FFA paper sold	days	1,510	1,280
FFA paper bought	days	1,270	820
Net realised paper exposure	days	240	–
		31 December 2006	28 February 2007
Net FFA paper sold	days	–	460

Other Operations and Business Development

2006 saw substantial growth in Pacific Basin's non-core operations and business development efforts. We aim for involvement in shipping related activities further along the supply chain where we can add value, thereby offering a more comprehensive service to our customers.

In the summer of 2006 we assembled a team dedicated to developing potential port and related infrastructure initiatives in China, where we feel there are good returns to be realised. This team, led by Mr. Wang Chunlin, formerly Assistant President and Managing Director of Shipping at Sinotrans, is currently working on a number of projects, including a general cargo terminal investment opportunity in conjunction with a major Chinese port authority.

Our new Beijing office, opened last November, will expand our presence in China. Our team of mainland China specialists, led by Mr. Ben Lee, President of Pacific Basin China, aims to secure new cargoes for our ships whilst continuing to nurture existing relationships, including our partnership with China's leading power producer, who now also contributes tonnage to our IHX Pool.

The Middle East continues to be an area of considerable focus, with a continuing boom in infrastructure development requiring increased imports of raw materials. Fujairah Bulk Shipping Limited, our joint venture with the Government of Fujairah and others for the shipment of aggregates in the Middle East, was profitable during its first full year of operation, and now employs one handysize and two handymax vessels. This joint venture trades aggregates, and has seen a steady increase in the volume of its shipments since January 2006. A tug and barge operation is also now underway operating from the joint venture's first wharf. Aside from this business, Pacific Basin opened a new office in Dubai in December to provide a base for other business development activities in the region, both cargo and infrastructure related. This office has also initiated business development coverage of the Indian subcontinent, where we are seeing an increasing number of cargo opportunities.

Through another joint venture with a Chinese partner, we have just taken delivery of the first of two minibulkers on order from a yard in Northern China, with options to build a further four. At 6,600 deadweight tonnes, these vessels are much smaller than our usual handysize type, yet carry similar cargoes and are intended as an entry into the Chinese coastal trades, where demand is booming.

Fleet Development

	Number of vessels			
	Owned	Chartered[1]	Managed	Total
Handysize – in operation				
As at 1 January 2006	17[2]	27	4	48
Newbuildings delivered	1	3	–	4
Second hand purchases	6	–	(2)	4
Exercise of purchase option of a long term chartered in vessel	1	(1)	–	–
New chartered in	–	3	–	3
Charters expired	–	(2)	–	(2)
Sale and time charter back[3]	(3)	3	–	–
Disposal	(1)	–	–	(1)
New managed vessels	–	–	2	2
As at 28 February 2007	**21**	**33**	**4**	**58**
Handysize – newbuildings				
As at 1 January 2006	6	4	–	10
New orders	6	–	–	6
Newbuildings delivered	(1)	(3)	–	(4)
As at 28 February 2007	11	1	–	12
Handysize fleet as at 28 February 2007	**32**	**34**	**4**	**70**
Handymax – in operation				
As at 1 January 2006	–	2	–	2
Second hand purchases	2	–	–	2
New chartered in	–	2	–	2
As at 28 February 2007	**2**	**4**	**–**	**6**
Handymax – newbuilding				
As at 1 January 2006	–	–	–	–
New order	1	–	–	1
As at 28 February 2007	**1**	**–**	**–**	**1**
Handymax fleet as at 28 February 2007	**3**	**4**	**–**	**7**
Total fleet as at 28 February 2007 including newbuildings[4]	**35**	**38**	**4**	**77**

[1] Includes 27 handysize and 2 handymax vessels with purchase options

[2] Includes "Willow Point" (ex. "Ocean Bulker"), acquired in December 2005 but subsequently delivered in the third quarter 2006

[3] Includes "Oak Harbour", the delivery of which is currently expected to be completed by the end of May 2007

[4] Excludes minibulkers, tugs, or barges

At the start of the year, our handysize fleet of 48 vessels comprised 17 owned, 27 long term 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 long term chartered handymax vessels in operation.

Handysize Fleet
Using capital released by our 2005 sale and charter back programme, as well as the new equity raised by our placement in November 2006, during the year we were able to purchase and take delivery of eight second hand handysize ships, each in private, off-market transactions at prices that now look very attractive. Out of these newly acquired vessels, two were previously managed by us and one was previously a chartered vessel on which we exercised our purchase option. In addition, we have taken delivery of one handysize newbuilding which we contracted in the first half of 2006. During the year we were able to charter in six additional vessels on a long term basis, four of which were newbuildings and entered our chartered fleet upon delivery. Against this, two vessels completed their charters and left the fleet. Our managed fleet also has two new joiners. As a result of this activity, our handysize fleet in operation as of the date of this report comprises a total of 58 vessels representing a fleet size expansion of 21% since the start of 2006, with an average age of just over six years old.

With the objective of capitalising on the strong sale and purchase market and maintaining a modern handysize fleet, we have agreed to sell four of the oldest owned vessels in our handysize fleet, "Patagonia", "Ocean Logger", "Abbot Point" and "Oak Harbour". The sales of the first two vessels, which were completed in 2006, raised proceeds of about US$40 million which we have used to repay our bank borrowings and to fund the second hand purchases mentioned earlier. The sale of "Oak Harbour" is expected to be completed by the end of May this year. In addition, immediately after these sales, we chartered back "Patagonia" and "Ocean Logger" each for periods of three and a half years and we shall charter back "Oak Harbour" for three years, all at competitive rates, allowing us to retain commercial control and hence the earnings in respect of these three vessels. Meanwhile, "Abbot Point" joined our managed fleet on delivery to her new owner earlier this year, thereby allowing us to maintain our fleet scale.

During the year and up to the date of this report, we have placed orders for six additional new handysize vessels, with deliveries scheduled between 2007 and 2009. Four of these vessels are being constructed at the traditional yards for this vessel type in Japan, while the other two vessels were contracted pursuant to the exercise of options attached to the four shipbuilding contracts that we entered into with Jiangmen Nanyang Shipyard in Southern China in December 2005. This takes the total number of ships which we have on order at Jiangmen Nanyang Shipyard to six. Accordingly, our newbuilding orderbook for handysize vessels as at the date of this report stood at 12 vessels, four of which are scheduled to deliver in 2007, four in 2008 and four in 2009, enabling us to continue our steady fleet expansion and to maintain our characteristic modern, uniform handysize fleet profile.

Handymax Fleet
We entered the handymax segment as an operator in December 2005. In order to expand our handymax fleet and thus reinforce our presence in this market segment, we purchased two vessels and chartered in two additional handymax ships on a long term basis during 2006. Recently, we also placed an order for a

54,000 deadweight tonne newbuilding bulk carrier with a reputable Japanese shipbuilding company, which will further expand our handymax fleet at an attractive price relative to recent strong second hand asset values.

Summary
As at the date of this report, our handysize fleet comprised a total of 70 vessels, including 21 owned, 33 long term chartered and four managed vessels on the water, and 12 newbuildings on order, 11 of which will enter the owned fleet and one of which will enter the chartered fleet on delivery. All the handysize vessels in operation, except one which has been long term leased out, are operated through our IHC Pool and it is expected that our newbuildings will expand this service as they deliver.

Our handymax fleet comprised two owned, four long term chartered vessels and one owned newbuilding on order. Except for two handymax which are on long term charters to COSCO, all other vessels are operated through our IHX Pool.

Short Term Charters
Neither our handysize nor our handymax fleet lists include short term (defined as less than 12 months) chartered in vessels. As at 28 February 2007, we had a total of four handysize vessels and 18 handymax vessels on short term charters in the IHC and IHX Pools, respectively.

Purchase Options
We hold options to purchase 27 out of our 34 chartered handysize vessels and newbuildings, and two out of our four chartered handymax vessels. These options hold significant unrealised value for us, given that their strike prices are well below their respective current market values. They also allow us to preserve our fleet size and scale of operations at the expiry of the charters. See "Lease Commitments" in the Financial Review section.

Dividend

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 proposed a final dividend of HK 22.5 cents per share, which will be paid on 17 April 2007. The register of members will be closed from 2 to 4 April 2007 (both days inclusive), during which period no transfer of shares will be effected. 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, at Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong not later than 4:30 p.m. on 30 March 2007.

The decision by the Board to pay out 71.2% of the Group's profits for the year reflects the strength of the Group's balance sheet following another satisfactory year for the Group, 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 final dividend, the Group will still have distributable reserves of over US$99.9 million.

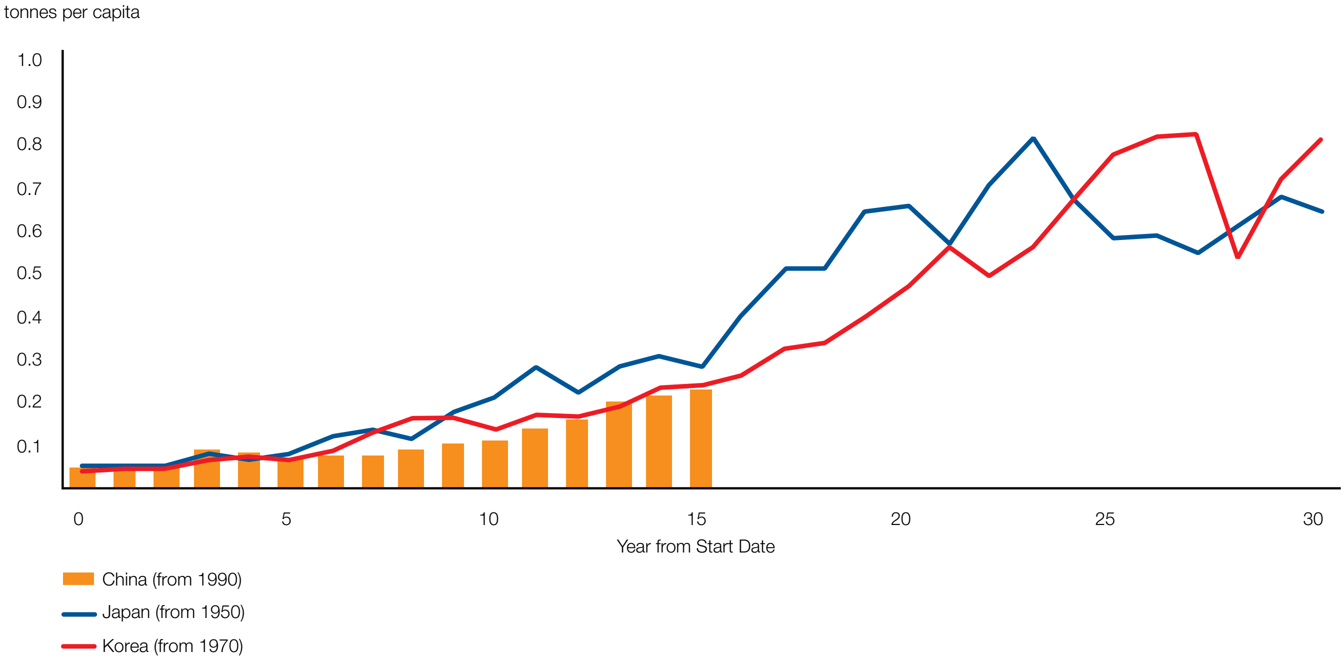
Outlook and Prospects

Pacific Basin is well positioned to benefit in 2007 from the likely continued dry bulk market cyclical upswing which commenced halfway through last year. Fears for the global economy have been tempered by recent encouraging signs from the US consumer, and there has been no let up in China's import of commodities so far this year: indeed, China imported a monthly record high 37 million tonnes of iron ore in January[1], beating the previous record set in August 2006 by three million tonnes. Clarkson's one year handysize time charter rate now stands at US$17,600 net compared with US$10,230 net in January last year, while their three year time charter rate has risen from US$8,760 net in January 2006 to US$15,080 net today, reflecting strong confidence in the forward market[2].

China will continue to be the most significant driver of demand growth for both major and minor bulks, and there is still much headroom for Pacific Basin to increase its share of this vast, growing market. We see no reason for a significant slowdown in demand

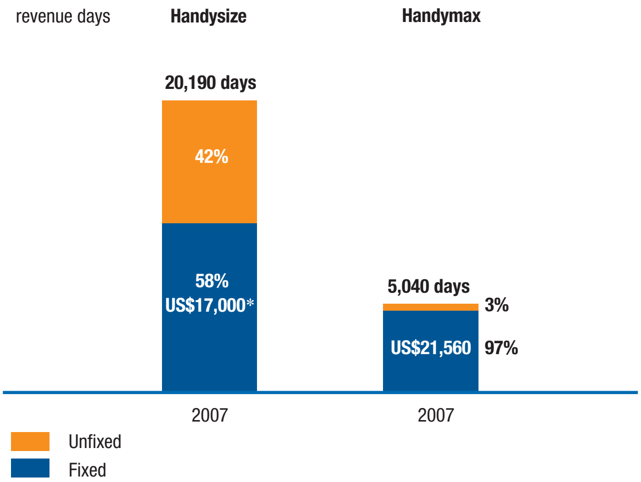
1 Source: SSY
2 Net of brokers' commissions, adjusted for benchmark vessel

Steel Consumption per Capita



Source: UBS

Contract Coverage and Daily TCE for 2007



* Includes an approximate US$1,000/day anticipated uplift from efficient voyage execution

from China or the other fast emerging economies of Asia for the next few years. Historical data suggests that, if she follows the same path as Japan and Korea at comparable stages of their development, we can expect China's raw material needs to continue growing for many years to come.

As trade patterns continue to evolve with shifts in production and infrastructure capacity amongst the commodity exporting nations, the increase in distances travelled by vessels will continue to play a significant role in absorbing vessel supply. Global port congestion has also been on the rise, as a result of cargo volume growth outpacing port and rail infrastructure capacity improvements, with a positive effect on freight rates.

We expect the market to maintain the fine overall balance it held at the end of 2006, albeit taking on a more volatile character as result of increasing seasonal demand fluctuations and possible changes in port congestion. Compared to those for larger dry bulk vessels, handysize rates are likely to remain the least volatile due to the diverse range of cargoes carried. On the supply side, the handysize sector (25,000–35,000 deadweight) has the lowest orderbook of any dry bulk sector, and we can expect steady or lower deliveries combined with an increase in scrapping to mean modest fleet growth overall in the period 2007 to 2009.

Present cover levels in our core handysize business give us good visibility over our earnings and dividends for 2007. At 58% cover on our handysize book for the year, we are also positioned to take advantage of a favourable spot market.

We now have a larger fleet than ever in a business where scale is a key to success, both in terms of serving our customers more efficiently and in terms of maximising our earnings premium to the market. We have US$251.7 million committed to new vessels for delivery in the period 2007 to 2009, with four handysize newbuildings scheduled to deliver this year. Our priority is to fulfil our contract of affreightment obligations to the highest standards, either with owned, long term chartered or short term chartered tonnage, and we have started 2007 with an encouraging book of forward cargo cover for our IHC and our IHX Pools. Whilst we continue to maintain a conservative approach to new vessel investments with vessel values at record highs, our strong balance sheet and cash position mean that we are ready to take advantage of vessel acquisition opportunities as soon as we consider the timing to be right.

In summary, with a healthy market outlook, high earnings visibility and a large fleet of young vessels at our disposal, we are optimistic that 2007 should prove to be a good year for Pacific Basin.