Pacific Basin Shipping Limited
太平洋航運集團有限公司*

Press Release

Pacific Basin Shipping Limited Announces 2005 Annual Results

Hong Kong, March 6, 2006 – Pacific Basin Shipping Limited ("Pacific Basin" or "the Company"; SEHK: 2343), one of the world's leading dry bulk shipping companies, today announced the annual results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2005.

Key Highlights

Year Ended 31 December 2005

		(restated)
US$ millions	**2005**	2004
Turnover	**433.7**	302.2
Time Charter Equivalent Earnings	**264.7**	188.9
Profit Attributable to Shareholders	**147.1**	103.6
Basic Earnings per share (US cents)	**11.58**	9.59
Basic Earnings per share (HK cents)	***89.72***	*74.80*

- Proposed final dividend of 35 HK Cents per share, giving total dividend of 65 HK Cents per share for the year ended 31 December 2005
- 2004 fleet expansion drives 43% growth in 2005 handysize vessel revenue days to 14,200 (2004: 9,900) with average rate earned of US$17,100 per vessel per day (2004: US$17,900)
- The fleet today stands at 60 vessels, including newbuildings, with an average age of six years (Handysize: 17 owned, 28 on long-term charters; 4 managed; and 9 newbuildings. Handymax: 2 on long-term charters)

Commenting on the results Group Executive Deputy Chairman, Richard Hext, said:

"2005 witnessed another strong 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$23.5million from seven sale and charterbacks and one lease-sale transaction) and turnover by 43% to US$433.7million. Basic earnings per share rose 20.8% to 11.58 US cents (89.72 HK cents)."

The company's statement to its shareholders continued :

Dividend

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 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.

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 exceptionally strongly and ended much lower but nonetheless at levels which were 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 continuation of the strength 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.

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 2708 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 can continue to enjoy very profitable margins whilst the strong demand for bulk commodities persists. 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 order-books 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 historically such ships 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 which we sold and time-chartered back, 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; our 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.

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 fronthaul and backhaul 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 our 2008 contracts as the year progresses (The revenue days quoted are handysize only as it is these days that 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 organise "IHX", a handymax pool, and have already received expressions of 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.

In Conclusion

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.

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The Company

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CONSOLIDATED PROFIT AND LOSS ACCOUNT
FOR THE YEAR ENDED 31 DECEMBER 2005

	2005	(restated) 2004
	US$'000	US$'000
Turnover	433,704	302,244
Bunkers, port disbursements and amounts payable to other pool members	(169,021)	(113,361)
Time charter equivalent earnings	264,683	188,883
Other net income	735	431
Direct costs	(114,752)	(69,012)
General and administrative expenses	(11,811)	(8,541)
Gain on disposal of fixed assets	23,516	-
Operating profit	162,371	111,761
Finance costs	(17,940)	(10,215)
Share of profits less losses of jointly controlled entities	3,491	2,494
Profit before taxation	147,922	104,040
Taxation	(779)	(485)
Profit attributable to shareholders	147,143	103,555
Dividends	107,430	88,797
Basic earnings per share	US 11.58 cents	US 9.59 cents
Diluted earnings per share	US 11.46 cents	US 9.55 cents

CONSOLIDATED BALANCE SHEET
AS AT 31 DECEMBER 2005

	2005 US$'000	(restated) 2004 US$'000
Non-current assets		
Fixed assets	**504,309**	544,128
Goodwill	**25,256**	25,256
Interests in jointly controlled entities	**8,138**	8,838
Investment securities	**-**	200
Derivative assets	**3,382**	-
Trade and other receivables	**13,333**	-
Restricted bank deposits	**1,200**	4,150
	555,618	582,572
Current assets		
Available-for-sale financial assets	**200**	-
Inventories	**9,138**	6,564
Derivative assets	**1,607**	-
Trade and other receivables	**25,043**	20,108
Bank balances and cash		
- pledged/restricted	**430**	1,910
- unpledged	**82,081**	41,651
	118,499	70,233
Current liabilities		
Derivative liabilities	**180**	-
Trade and other payables	**44,567**	35,315
Current portion of long term borrowings	**14,912**	36,021
Dividend payable	**-**	12,995
Taxation payable	**1,851**	1,801
	61,510	86,132
Net current assets/(liabilities)	**(56,989)**	(15,899)
Total assets less current liabilities	**612,607**	566,673
Non-current liabilities		
Derivative liabilities	**1,360**	-
Long-term borrowings	**301,973**	334,103
	303,333	334,103
Net assets	**309,274**	232,570
Equity		
Share capital	**128,184**	126,701
Retained profits	**126,308**	54,967
Other reserves	**54,782**	50,902
Total equity	**309,274**	232,570