Pacific Basin Shipping Limited

(Incorporated in Bermuda with limited liability)
(Stock Code: 2343)
www.pacbasin.com

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2006

The Directors of Pacific Basin Shipping Limited ("Pacific Basin" or the "Company") are pleased to announce the audited results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2006 as follows:

Highlights

US$ million	**Year Ended 31 December** **2006**	2005
Turnover	**620.4**	433.7
Time Charter Equivalent Earnings	**344.8**	264.7
Profit Attributable to Shareholders	**110.3**	147.1
Basic Earnings per Share (US cents)	**8.3**	11.6
Basic Earnings per Share (HK cents)	***65***	*90*

- Group profits for the year were US$110.3 million (2005: US$147.1 million) as a result of a relatively weak first half dry bulk market compared to an exceptionally strong second half 2005. Basic earnings per share were HK 65 cents (2005: HK 90 cents)
- A year of two halves saw Group profits more than double from US$36.4 million in the first half to US$73.9 million in the second half 2006
- Net cash from operating activities of US$148.2 million (2005: US$173.3 million)
- Strong balance sheet with total assets of US$919.9 million and shareholders' equity of US$485.0 million. Return on average equity was 36% (2005: 54%)
- Proposed final dividend of HK 22.5 cents per share. Together with the interim dividend of HK 20 cents per share, this brings total dividends for the year to HK 42.5 cents per share, representing a payout ratio of 71% and total shareholders' return (including share price capital gain and dividends paid during the year) of 51%
- 15% increase in handysize revenue days to 16,420 in 2006 (2005: 14,260) due to expanded owned and long term chartered fleet. A further 23% year on year increase to 20,190 handysize revenue days is already committed for 2007. In 2006 the Group earned an average US$15,420 (2005: US$17,100) per handysize revenue day
- Our fleet now totals 77 vessels (February 2006: 60) comprising 35 owned, 38 long term chartered and 4 managed vessels. The total includes 58 handysize and 6 handymax vessels afloat, and 12 handysize and 1 handymax newbuildings
- Total vessel expenditure during the year of US$285.1 million (2005: US$118.8 million), including 8 handysize and 2 handymax acquisitions, plus instalments on 10 newbuildings
- Positive dry bulk market outlook for 2007 supported by a continued healthy global economy and a strong appetite for commodities which is expected to absorb slowing new ship deliveries
- Contract cover is in place for 58% of current 20,190 handysize revenue days in 2007 at an expected yield of about US$17,000 per day upon execution of voyages. Baltic Handysize spot index on 28 February 2007 stood at US$20,447 per day net

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

MARKET REVIEW

In 2006 the dry bulk shipping market surprised most industry experts, who had forecast a relatively weak year on the back of historically high new vessel deliveries. Once again, demand for bulk commodities, particularly iron ore, surpassed expectations and easily absorbed the supply of ships. This was clearly indicated by the Baltic Dry Index ("BDI"), which opened 2006 at 2438 points and climbed 80% to finish the year at 4397 points after a particularly impressive performance in the second half.

The BDI, which tracks spot rates for capesize, panamax, and handymax (but not handysize until January 2007) dry bulk carriers, got off to a quiet start in 2006 mainly due to iron ore supply shortages and, consequently, to lower capesize requirements compared to the very solid second half of 2005. Towards the end of the second quarter, however, it started to become apparent that robust demand for commodities, particularly cement and steel out of China, had absorbed the record volumes of newbuilding deliveries. The recovery gathered pace during the third quarter, traditionally a quiet period, indicating that the market had embarked on a new cyclical upturn.

One of the key drivers behind the rising need for dry bulk ships is the steel industry, which in 2006 achieved record world crude steel output of 1,240 million metric tonnes, an increase of 8.8% from 2005[1]. Whilst China is leading the ramp-up in global production, realising year on year steel output growth of just under 18% in 2006[1], other major steel producing regions, such as the EU, CIS, North America, India, and Japan, also increased their production levels. This drove another outstanding year for shipments of iron ore, one of the most important commodities for dry bulk shipping. Another significant contributor to the strength of the dry bulk market was the fact that the majority of additional Chinese iron ore imports in 2006 was not supplied by Australia, already exporting at close to full capacity, but by Brazil. This has had significant tonne-mile implications, since two to three times as much shipping capacity is required to move the same volume of iron ore to China from Brazil as from Australia.

Other key dry bulk commodities also enjoyed vigorous demand in 2006, contributing to overall seaborne trade demand growth in 2006 of 5%-7% according to major shipbrokers. The actual figure is, however, increasingly difficult to calculate due partly to the tonne-mile factor already mentioned and partly to the growth of new trades which are not widely followed. For these reasons, we will be taking steps in 2007 to improve our in-house picture of overall dry bulk trade volumes.

The recovery of the capesize and panamax markets was preceded by improved handymax and handysize rates during the second quarter as a result of growing requirements for the so-called 'minor bulks' such as cement, steels and forest products with China, again, playing a key role both as major importer and exporter. Iron ore is the commodity that normally catches the headlines, but trade in a broad range of other cargoes has also expanded significantly in line with increased global GDP and industrial production. The alumina industry has been robust, supporting petcoke, bauxite and alumina shipments; demand for New Zealand timber has seen log exports to Asia and India climb, and the most visible minor bulk support has come from the cement trades in response to booming demand in the US and the Middle East. China has moved aggressively to fill a supply deficit and Chinese cement exports were up 63%[2] in 2006, absorbing much of the supply of new handymax vessels during the year.

The handysize market developed in line with the general dry bulk market, except that the recovery in this sector started during the first quarter from a February spot market low of US$11,000 per day to reach US$13,000 per day by end March. The market recovery continued in the second quarter with the newly introduced Baltic Handysize Index ("BHSI") climbing to almost US$15,000 per day net[3] by the end of June. But it was in the third quarter that the market really accelerated, with the BHSI reaching US$20,350 per day net by the end of September. After a long period of gains, the handysize market consolidated in the fourth quarter, but still managed to add another US$1,000 per day; thus the BHSI ended the year at US$21,350 per day net and as at 28 February stood at US$20,447 per day.

On the handymax front, the Baltic Supramax Index ("BSI") showed a little more volatility than the BHSI although the general trend was also in line with the BDI. A most interesting feature of handymax rates over 2006 was their upward advance on panamax rates, reflecting the greater operational versatility of geared handymax vessels and their increasing economic suitability for specific cargo sizes and types. The BSI closed 2006 at US$28,563 per day net, up 64% on US$17,384 at the beginning of the year, a rise driven mainly by Chinese steel and cement exports, and aided by increased congestion towards the end of the year. As at 28 February, the BSI stood at US$29,007 per day net.

Vessel Supply: Orderbook, Scrapping, Asset Values[4]

The overall dry bulk fleet grew by 6.7% (deadweight basis) during 2006. This is lower than the year before, when the fleet expanded by 7.0%, but is still historically high. The handysize 25,000 to 35,000 deadweight fleet segment, in which Pacific Basin operates, saw year on year fleet growth of only 1.4%, much the lowest of all the dry bulk sectors. Shipyards continue to prefer building larger sized bulkers, tankers, and container vessels, the construction of which yields higher margins.

Yard deliveries of dry bulk vessels in 2006 at 25.7 million deadweight were higher than the year before (23.4 million deadweight), but higher scrapping at 1.9 million deadweight against 1.0 million deadweight in 2005 resulted in slightly lower fleet growth in 2006 than in 2005. Despite the high level of yard deliveries, the average age of the dry bulk fleet increased from 15.0 years to 15.1 years per vessel. This was seen also in the handysize sector where, by the end of 2006, the 25,000-35,000 deadweight segment had an average fleet age of 17.9 years per vessel, 0.3 years higher than one year earlier. Despite more new ships coming out of the yards and some increased scrapping, the dry bulk trades are increasingly dependent on older vessels operating beyond their normal economic lifespan.

Dry bulk scrapping in 2006 was almost twice the level of the year before but remains well below the natural replacement level. Scrapping was unevenly distributed, with over 75% taking place in the first half of the year and then reducing to a trickle as a result of improved freight rates during the second half.

[1] Source: IISI
[2] Source: SSY
[3] Net of 5% brokers' commissions included in the BHSI
[4] Source: all fleet data from Clarkson

Not unexpectedly, the contracting of newbuildings picked up pace during the second half of the year as freight rates rose. This resulted in the dry bulk orderbook increasing from 20% of the fleet in the middle of the year to over 22% at the end of 2006. Although in itself a high level it must be remembered that yards already had good forward cover, and so most of the ordering during the second half of 2006 is for delivery in 2010 and beyond. The handysize orderbook is lower at 15% due to the scarcity of yard capacity willing to contract smaller dry bulk ships.

Even when accounting for some orders not caught in the published orderbook statistics, deliveries for 2007 are not expected to be very different to last year. Deliveries for 2008 are estimated to be lower.

Moreover, despite a high freight market and good earnings, an increasing number of the older ships will be forced to scrap. Fleet data indicates that about 26 million deadweight tonnes of dry bulk tonnage is over 27 years of age. This is equivalent to the entire dry bulk yard deliveries of 2006 and, although this will only disappear gradually, scrapping is expected to increase in 2007 and as a result to dampen supply growth from the new ships entering service. In the 25,000 to 35,000 deadweight tonne bracket, eight million deadweight tonnes – or 23% of the existing fleet – is aged 27 years or older, whereas the order book totals nearly six million deadweight tonnes, or 15% of the current fleet.

The weaker dry bulk market sentiment at the start of 2006 was reflected in ship values hitting a low point in February. On the back of improved prospects, prices for second hand ships began to climb, and by the start of the third quarter price levels had exceeded the previous all time highs set in the spring of 2005. Values continued to increase and by the end of the year prices for 5 years old handysize and handymax vessels were around 20%-30% higher than one year earlier according to Clarkson, although we put the rise at nearer 30%-40%.

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 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).

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 below 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

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	**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

Note: table does not include 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 order book 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 Management Discussion and Analysis Section of this announcement.

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 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 order book 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 another good year for Pacific Basin.

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

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2006

	Note	**2006** **US$'000**	2005 US$'000
Turnover	3	**620,444**	433,704
Bunkers, port disbursements and amounts payable to other pool members	3	**(275,668)**	(169,021)
Time charter equivalent earnings	3	**344,776**	264,683
Direct costs		**(215,807)**	(114,752)
General and administrative expenses		**(12,291)**	(11,811)
Other operating income		**13,699**	735
Other operating expenses		**(18,930)**	–
Gain on disposal of property, plant and equipment		**23,787**	23,516
Operating profit		**135,234**	162,371
Finance costs		**(26,831)**	(17,940)
Share of profits less losses of jointly controlled entities		**3,024**	3,491
Profit before taxation	4	**111,427**	147,922
Taxation	5	**(1,135)**	(779)
Profit attributable to shareholders		**110,292**	147,143
Dividends	6	**78,562**	107,591
Basic earnings per share	7(a)	**US 8.33 cents**	US 11.58 cents
Diluted earnings per share	7(b)	**US 8.28 cents**	US 11.46 cents

CONSOLIDATED BALANCE SHEET

As at 31 December 2006

	Note	2006 US$'000	2005 US$'000
Non-current assets			
Property, plant and equipment		**741,014**	504,309
Land use rights		**427**	–
Goodwill		**25,256**	25,256
Interests in jointly controlled entities		**15,299**	8,138
Derivative assets		**11**	3,382
Trade and other receivables	8	**11,968**	13,333
Restricted bank deposits		**–**	1,200
		793,975	555,618
Current assets			
Available-for-sale financial assets		**–**	200
Inventories		**15,643**	9,138
Derivative assets		**1,481**	1,607
Trade and other receivables	8	**45,554**	25,043
Bank balances and cash			
– pledged/restricted		**–**	430
– unpledged		**63,242**	82,081
		125,920	118,499
Current liabilities			
Derivative liabilities		**11,209**	180
Trade and other payables	9	**69,894**	44,567
Current portion of long term borrowings		**23,881**	14,912
Taxation payable		**1,698**	1,851
		106,682	61,510
Net current assets		**19,238**	56,989
Total assets less current liabilities		**813,213**	612,607
Non-current liabilities			
Derivative liabilities		**1,636**	1,360
Long term borrowings		**326,584**	301,973
		328,220	303,333
Net assets		**484,993**	309,274
Equity			
Share capital		**155,785**	128,184
Retained profits		**145,048**	126,308
Other reserves		**184,160**	54,782
Total equity		**484,993**	309,274

Note:

1. **General information and basis of preparation**

The Company was incorporated in Bermuda on 10 March 2004 as an exempted company with limited liability under the Companies Act 1981 of Bermuda.

The Company is listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRS") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). The financial statements have been prepared under the historical cost convention, as modified by the available-for-sale financial assets, financial assets and financial liabilities (including derivative instruments) at fair value through profit or loss, which are carried at fair value.

2. Adoption of new/revised HKFRS

The accounting policies and methods of computation used in the preparation of these financial statements are consistent with those used in the 2005 annual financial statements except that the Group has changed certain of its accounting policies following its adoption of the new or revised standards and interpretations to the published standards which are relevant to its operations. The adoption of these new or revised standards and intepretations did not result in any substantial change to the Group's accounting policies.

3. Turnover and segment information

The Group is principally engaged in the provision of dry bulk shipping services through the operation of a fleet of vessels. Turnover recognised during the year is as follows:

	2006	2005
	US$'000	*US$'000*
Turnover		
Freight and charter-hire	**609,802**	422,638
Ship management income	**10,642**	11,066
	620,444	433,704
Bunkers, port disbursements and other charges	**(257,378)**	(131,492)
Amounts payable to other pool members [1]	**(18,290)**	(37,529)
Time charter equivalent earnings	**344,776**	264,683

[1] Amounts payable to other pool members relate to freight and charter-hire, net of bunkers, port disbursements and other charges of US$14.4 million (2005: US$19.6 million) and were calculated based on the number of pool points attributable to the vessels participating in the pool owned by the other pool members.

Primary reporting format – business segments

The Group's business is dominated by the provision of dry bulk shipping services, accordingly business segment information is not presented.

Secondary reporting format – geographical segments

The Directors consider that the nature of the provision of dry bulk shipping services, which are carried out internationally, and the way in which costs are allocated, preclude a meaningful allocation of operating profit to specific geographical segments. Accordingly, geographical segment information is not presented.

4. Profit before taxation

Profit before taxation is stated after charging the following:

	2006	2005
	US$'000	*US$'000*
Bunkers consumed	**91,396**	48,894
Lubricating oil consumed	**3,156**	2,269
Depreciation		
– owned vessels	**17,158**	26,241
– leased vessels	**15,063**	2,460
– other owned property, plant and equipment	**1,178**	863

5. Taxation

Hong Kong profits tax has been provided at the rate of 17.5% (2005: 17.5%) on the estimated assessable profit for the year.

Taxation on overseas profits has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the countries in which the Group operates.

The amount of taxation charged to the consolidated income statement represents:

	2006	2005
	US$'000	*US$'000*
Current taxation		
Hong Kong profits tax	**585**	548
Overseas tax	**309**	231
Underprovision of prior year	**241**	–
	1,135	779

6. Dividends

	2006 US$'000	2005 US$'000
Interim dividend paid of HK 20 cents (equivalent to US 2.6 cents) per share (2005: HK 30 cents or US 3.9 cents per share)	**33,443**	49,482
Proposed final dividend of HK 22.5 cents (equivalent to US 2.9 cents) per share (2005: HK 35 cents or US 4.5 cents per share)	**45,119**	58,109
	78,562	107,591

The dividends paid in 2006 and 2005 were US$91,552,000 (HK 55 cents or US 7.1 cents per share) and US$75,472,000 (HK 46 cents or US 5.9 cents per share) respectively. A proposed final dividend in respect of the year ended 31 December 2006 of HK 22.5 cents (equivalent to US 2.9 cents) per share, amounting to a total dividend of US$45,119,000, was declared on 5 March 2007. These financial statements do not reflect this dividend payable.

7. Earnings per share

(a) Basic earnings per share

Basic earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year, excluding the shares held by the trustee of the Company's Long Term Incentive Scheme ("LTIS").

	2006	2005
Profit attributable to shareholders (US Dollars in thousand)	**110,292**	147,143
Weighted average number of ordinary shares in issue (in thousands)	**1,323,282**	1,270,944
Basic earnings per share	**US 8.33 cents**	US 11.58 cents
Equivalent to	**HK 64.69 cents**	HK 89.72 cents

(b) Diluted earnings per share

Diluted earnings per share are calculated by dividing the Group's profit attributable to shareholders by the weighted average number of ordinary shares in issue during the year after adjusting for the number of potential dilutive ordinary shares granted under the Company's LTIS but excluding the shares held by the trustee of the Company's LTIS.

	2006	2005
Profit attributable to shareholders (US Dollars in thousands)	**110,292**	147,143
Weighted average number of ordinary shares in issue (in thousands)	**1,323,282**	1,270,944
Adjustments for share options (in thousands)	**7,999**	12,483
Weighted average number of ordinary shares for diluted earnings per share (in thousands)	**1,331,281**	1,283,427
Diluted earnings per share	**US 8.28 cents**	US 11.46 cents
Equivalent to	**HK 64.30 cents**	HK 88.79 cents

8. Trade and other receivables

Included in trade and other receivables are trade receivables and their ageing analysis is as follows:

	2006 US$'000	2005 US$'000
Less than 30 days	**18,682**	7,636
31 – 60 days	**2,361**	603
61 – 90 days	**369**	593
Over 90 days	**1,520**	858
	22,932	9,690

Trade receivables consisted principally of voyage-related trade receivables. It is industry practice that 95% to 100% of freight is paid upon completion of loading, with the balance paid after completion of discharge and after the finalisation of port disbursements and other voyage-related charges.

9. Trade and other payables

Included in trade and other payables are trade payables and their ageing analysis is as follows:

	2006 US$'000	2005 US$'000
Less than 30 days	**10,621**	1,437
31 – 60 days	**1,315**	248
61 – 90 days	**482**	326
Over 90 days	**1,243**	858
	13,661	2,869

MANAGEMENT DISCUSSION AND ANALYSIS

Turnover in 2006 was US$620.4 million (2005: US$433.7 million). Time charter equivalent earnings and shipping management income were US$344.8 million (2005: US$264.7 million). Net profit attributable to shareholders was US$110.3 million (2005: US$147.1 million). The reduction in net profit compared to 2005 was mainly due to a lower daily charter rate and increased daily vessel operating costs for the handysize vessels, partially offset by an increase in the number of vessels controlled in the fleet.

Income

The Group's owned and chartered fleet generated US$609.8 million (2005: US$422.6 million) or 98.3% (2005: 97.4%) of turnover and the remaining 1.7% was derived from commercial and technical management services for third party vessels and revenues from marine services businesses. Turnover is shown gross of voyage-related expenses, amounts payable to other pool members (based on the number of pool points attributable to their vessels) and any change in the fair value of bunker swap and forward contracts. Voyage-related expenses related primarily to commissions, ships' bunkers, port-related costs and hire expenses of short term chartered vessels.

The table below shows the divisional performance over the year:

	2005	1H06	2H06	**2006**	Year on year % Change
Handysize					
Revenue days	14,260	7,570	8,850	**16,420**	+ 15%
Daily charter rates (US$)	17,100	14,400	16,290	**15,420**	- 10%
Daily vessel operating costs (US$)	7,870	8,540	9,160	**8,880**	+ 13%
Handymax					
Revenue days	720	1,680	3,370	**5,050**	+602%
Daily charter rates (US$)	8,460	14,150	17,420	**16,330**	+ 93%
Daily vessel operating costs (US$)	8,400	15,920	17,760	**17,150**	+104%

Direct Costs

Direct costs in 2006 were US$215.8 million (2005: US$114.8 million). This increase was mainly because vessel charter-hire expenses for vessels under operating lease increased to US$120.0 million (2005: US$29.5 million). This reflected the increase in the average number of vessels chartered under operating leases, predominantly from the handymax fleet, and the increase in the average daily charter rate of handysize vessels.

Depreciation expenses increased to US$32.2 million (2005: US$28.7 million) primarily due to the increase in the average number of owned vessels.

Vessel operating costs for owned and finance leased vessels increased to US$38.4 million (2005: US$31.9 million). This was due to the increase in the average number of vessels from 33 to 35 in the Group's owned fleet between 2005 and 2006, the increase in crew wages, and higher insurance premiums due to the higher value of the vessels.

Direct costs also include the cost of marine products sold, cost of marine services, and an overhead allocation of US$23.5 million (2005: US$20.7 million) representing shore-based staff costs, office and related expenses directly attributable to the management of the owned and chartered fleet and the generation of marine services businesses.

Revenue days and vessel days can be analysed as follows:

	2005 Total	2006 Owned	2006 Chartered	**2006 Total**
Handysize				
Vessel days	14,630	12,390	4,220	**16,610**
Drydocking	(200)	(180)	–	**(180)**
Off-hire	(170)	(10)	–	**(10)**
Revenue days	14,260	12,200	4,220	**16,420**
Handymax				
Vessel days	720	390	4,660	**5,050**
Drydocking	–	–	–	**–**
Off-hire	–	–	–	**–**
Revenue days	720	390	4,660	**5,050**

The off-hire for the total fleet of owned vessels represented 0.3 (2005: 5.4) days per vessel per year.

Other Operating Income

Movements in the fair value of receipts from forward freight agreements amounted to US$10.6 million (2005: Nil). In addition, finance lease and bank interest income amounted to US$3.1 million (2005: US$0.7 million).

Other Operating Expenses

Movements in the fair value of payments for forward freight agreements amounted to US$18.9 million (2005: US$0.2 million). Taking into account the movement in fair value of receipts of US$10.6 million as shown above, the net movements in the fair value of forward freight agreements was a charge of US$8.3 million (2005: US$0.2 million).

General and Administrative Expenses

The Group's total administrative expenses of US$35.8 million (2005: US$32.5 million) consisted of shore-based overhead costs of US$23.5 million (2005: US$20.7 million) included as part of direct expenses, and general and administrative expenses of US$12.3 million (2005: US$11.8 million). The increase was largely due to the increase in the number of staff directly involved in the management of the expanded fleet. General and administrative expenses included Directors, senior management, key staff and administrative staff costs of US$8.4 million (2005: US$8.0 million) and other administrative and office expenses of US$3.9 million (2005: US$3.8 million).

Total administrative expenses as a percentage of time charter equivalent earnings decreased from 12.3% to 10.4%, reflecting greater productivity per staff. In addition, the number of full time shore-based staff per owned, chartered and managed vessel decreased from 3.4 to 2.8. This excludes the staff who are engaged in the provision of surveying and consulting services and not in the management of these vessels.

Share of Profits less Losses of Jointly Controlled Entities

The Group's share of profits less losses of jointly controlled entities of US$3.0 million mainly represented the share of results of a jointly controlled vessel, the "Captain Corelli", and a jointly controlled business involved in the shipping of aggregates in the Middle East.

Financing

Finance costs of US$26.8 million (2005: US$17.9 million) included interest payments of US$3.8 million (2005: US$11.5 million) in relation to bank borrowings used to finance the Group's owned vessels and finance charges of US$21.2 million (2005: US$4.2 million) in relation to vessels under finance lease arrangements.

Interest payments on bank borrowings

The decrease in interest payments on bank borrowings in 2006 of US$7.7 million was due to the decrease in the average bank borrowings outstanding to US$62.2 million in 2006 (2005: US$266.1 million). The bank borrowings' interest cost amounted to approximately US$600 per day for the owned vessels in 2006 (2005: US$1,100 per day). Average interest rates before hedging on bank borrowings were approximately 6.0% in 2006 (2005: 4.3%).

Finance charges

Finance charges of US$21.2 million (2005: US$4.2 million) represented interest payments on finance lease liabilities used to finance the Group's finance leased vessels. During the second half of 2005, the Group sold and bareboat leased back 17 of its vessels for periods of 10 to 12 years. Finance lease accounting has been adopted for these transactions so the balance sheet shows the net carrying value of these vessels, and the current and long term liabilities in aggregate include finance lease liabilities of US$302.0 million. The fixed equal quarterly charter-hire payments are accounted for as a combination of repayments of finance lease liabilities in the balance sheet and finance charges in the income statement. The finance charges for the 6,200 finance lease vessel days amounted to approximately US$3,410 per day in 2006 (2005: US$3,620). This daily charge will reduce each year as the finance lease liabilities in the balance sheet are repaid. Finance charges can be expressed as interest rates, fixed for the period of the leases. The average interest rate on finance leases was approximately 6.7% in 2006 (2005: 6.7%).

Tax

Taxation amounted to US$1.1 million in 2006 (2005: US$0.8 million). Certain shipping income is not subject to taxation according to the tax regulation prevailing in the countries in which the Group operates.

Gains on Disposal of Property, Plant and Equipment

Gains on disposal of property, plant and equipment of US$23.8 million were recognised in 2006 (2005: US$23.5 million). The Group sold and leased back two of its vessels. Proceeds from the sale of US$39.9 million were used to repay bank borrowings on those vessels and to prepay other bank debts. In accordance with HKAS 17 "Leases", operating lease accounting has been adopted for these transactions with the vessels being treated as sold, the gain or loss on disposal being recognised immediately, and subsequent charter hire payments being recognised as expenses.

Cashflow

US$ million	2005	**2006**
Net cash from operating activities	173.3	**148.2**
– Purchase of property, plant and equipment and land use rights	(121.2)	**(286.6)**
– Sale of property, plant and equipment	139.5	**39.9**
– Others	6.4	**5.6**
Net cash from/(used in) investing activities	24.7	**(241.1)**
– Proceeds from new share placement, net of share issuing expenses	–	**154.3**
– Net (repayment)/drawdown of borrowings	(372.9)	**33.6**
– Sale proceeds under finance leases	318.0	**–**
– Payment of interest and other finance charges	(17.0)	**(25.4)**
– Payment of dividends	(88.5)	**(91.6)**
– Others	2.9	**3.1**
Net cash (used in)/from financing activities	(157.5)	**74.0**
Cash at 31 December	82.1	**63.2**

At 31 December 2006, the Group had net working capital of US$43.1 million excluding finance lease liabilities and bank loans repayable within one year of US$16.1 million and US$7.8 million respectively. The primary sources of liquidity comprised bank balances and cash of US$63.2 million and unutilised committed and secured bank borrowing facilities of US$118.9 million. The Group's primary liquidity needs are to fund general working capital requirements (including lease and other short term financing commitments), fleet expansion and other capital expenditure.

Financial Instruments

The Group is exposed to fluctuations in interest rates, bunker prices, freight rates and foreign currencies in relation to contracts designated in foreign currencies. The Group manages these exposures by way of interest rate swap contracts, bunker swap and forward contracts, forward freight agreements, and forward foreign exchange contracts respectively.

At 31 December 2006, the forward foreign exchange contracts and one of the interest rate swap contracts qualified as cashflow hedges. Accordingly, the change in the fair value of these instruments during the year then ended was recognised directly in hedging reserve.

Hedge accounting has neither been adopted for bunker swap and forward contracts nor for forward freight agreements. This is mainly because the contract periods, which are in calendar months, do not exactly coincide with the period of the physical contracts. Hedge accounting has also not been adopted for one of the other interest rate swap contracts as its terms do not qualify for hedge accounting. Gains or losses arising from a change in the fair value of these contracts were recognised in the income statement under i) finance costs for interest rate swap contracts; ii) bunkers, port disbursements and other charges for bunker swap and forward contracts; and iii) other operating income and other operating expenses for forward freight agreements. The adoption of HKAS 39 "Financial Instruments: Recognition and Measurement" has the effect of shifting the estimated results of these future contracts into the current period as part of the 2006 unrealised, non-cash charge of US$11.1 million whereas the cashflows of these contracts will occur in future reporting periods.

In 2006, the Group recognised net realised losses of US$2.6 million and net unrealised losses of US$11.1 million in respect of financial instruments in the income statement. This resulted in a total charge for the year of US$13.7 million. Included in this amount was a net loss of US$8.3 million in relation to forward freight agreements of which US$4.7 million was realised and US$3.6 million unrealised. These are further analysed as follows:

US$ million	2005	Realised	Unrealised	**2006**
Gains				
– Interest rate swap contracts	1.0	0.2	–	**0.2**
– Bunker swap and forward contracts	7.6	4.0	0.2	**4.2**
– Forward freight agreements	–	6.3	4.3	**10.6**
	8.6	10.5	4.5	**15.0**
Losses				
– Interest rate swap contracts	(1.0)	(0.1)	(1.4)	**(1.5)**
– Bunker swap and forward contracts	(0.4)	(2.0)	(6.3)	**(8.3)**
– Forward freight agreements	(0.2)	(11.0)	(7.9)	**(18.9)**
	(1.6)	(13.1)	(15.6)	**(28.7)**
Net				
– Interest rate swap contracts	–	0.1	(1.4)	**(1.3)**
– Bunker swap and forward contracts	7.2	2.0	(6.1)	**(4.1)**
– Forward freight agreements	(0.2)	(4.7)	(3.6)	**(8.3)**
	7.0	(2.6)	(11.1)	**(13.7)**

Indebtedness

The indebtedness of the Group comprised finance lease liabilities of US$302.0 million and bank borrowings of US$48.5 million, of which US$16.1 million and US$7.8 million respectively represented the current portion that were repayable within one year from the balance sheet date.

Finance lease liabilities decreased to US$302.0 million (2005: US$316.9 million) as a result of repayments during the year. Bank borrowings increased to US$48.5 million (2005: Nil). The increase was the result of re-drawn existing pre-paid bank facilities to finance the delivery and acquisition of vessels.

At 31 December 2006, all outstanding finance lease liabilities will expire between 2015 and 2017 and all outstanding secured bank borrowings will expire in 2014.

The Group's bank borrowings were secured by mortgages over 6 vessels with a total net book value of US$131.7 million and assignment of earnings and insurances in respect of the vessels.

The Group had unutilised committed bank borrowing facilities of US$118.9 million available to finance the Group's newbuilding commitments and other vessel acquisitions.

The Group's gearing ratio expressed as borrowings and finance lease liabilities, net of cash, as a percentage of property, plant and equipment (based on net book values) and vessel finance lease receivables was 38.1% (2005: 44.9%).

Lease Commitments

Lease commitments include vessels chartered by the Group directly and by the IHC and IHX Pools. Charter in commitments under operating leases stood at US$285.1 million (31 December 2005: US$223.1 million). These commitments excluded vessels under finance leases which were included as part of property, plant and equipment. The increase was mainly due to higher average daily rates of the vessels under operating leases and an average increase of three chartered vessels during the year. Of these commitments, US$206.2 million related to handysize vessels and US$78.9 million related to handymax vessels.

The average daily charter rates and total number of vessel days of our PB handysize and PB handymax vessels under operating leases and finance leases in each year, assuming the purchase options will not be exercised until the expiry of the charter-hire agreements, are as follows:

	PB Handysize Operating leases		PB Handysize Finance leases		PB Handymax Operating leases	
Year	**Average daily rates (US$)**	**Total number of vessel days**	**Average daily rates (US$)**	**Total number of vessel days**	**Average daily rates (US$)**	**Total number of vessel days**
2007	9,900	5,290	5,800	6,210	13,700	1,450
2008	9,600	5,120	5,800	6,220	10,100	880
2009	9,600	3,920	5,800	6,210	8,500	620
2010	8,900	2,680	5,800	6,210	8,500	10
2011	8,800	1,830	5,800	6,210	–	–
2012	8,800	1,340	5,800	6,220	–	–
2013	8,800	730	5,800	6,210	–	–
2014	8,400	370	5,800	6,210	–	–
2015	8,400	280	5,800	5,410	–	–
2016	–	–	5,900	1,830	–	–
2017	–	–	6,000	1,520	–	–
Total		21,560		58,460		2,960

Certain lease agreements provide the Group with the option to purchase the related vessel at a pre-determined time and exercise price during the lease period. The average exercise prices of the existing purchase options for both handysize vessels and handymax vessels in the earliest years in which these options may be exercised, along with the number of vessels and the average age of such vessels in that year, are as follows:

		Number of vessels			
Earliest year in which options may be exercised	**Vessel type**	**Finance lease**	**Operating lease**	**Average age of such vessels**	**Average option exercise price (US$ million)**
2007	Handysize	17	2	5	18.0
2008	Handysize	–	4	6	21.1
2009	Handysize	–	3	3	22.1
	Handymax	–	1	5	17.7
2010	Handysize	–	1	3	22.5
	Handymax	–	1	5	17.7
Total		17	12		

Capital Expenditure, Property, Plant and Equipment and Commitments

In 2006, capital expenditure, mainly comprised eight handysize, two handymax vessel acquisitions and instalments on 10 newbuildings, amounted to US$286.6 million. This included capitalised expenditure on drydocking of US$4.2 million.

At 31 December 2006, the Group had property, plant and equipment of US$741.0 million, of which US$683.5 million related to 39 delivered vessels with an average net book value of US$17.5 million per vessel and an average age of 6 years.

The Group had non-cancellable commitments of US$216.8 million for the construction of 11 handysize vessels. In addition, the Group, at the year end, was authorised to purchase and subsequently contracted for one handymax vessel with a value of US$34.9 million. These vessels are for delivery to the Group between February 2007 and September 2009.

Finance for such vessel commitments will come from cash generated from the Group's operations, existing cash and unutilised bank borrowing facilities and additional long term borrowings to be arranged, as required. Where the commitments are in currencies other than US Dollars, the Group has entered into contracts to purchase the currencies at predetermined rates.

Directors' Opinion on the Working Capital Available to the Group

The Directors are of the opinion that, taking into consideration the financial resources available to the Group, including internally generated funds and the available bank facilities, the Group has sufficient working capital to satisfy its present requirements.

Staff

At 31 December 2006, the Group employed a total of 260 full time shore based staff in offices in Hong Kong, Shanghai, Beijing, Dalian, Tokyo, Seoul, Singapore, Mumbai, Karachi, Dubai, Fujairah, London, Bad Essen, Houston, Vancouver and Melbourne. The largest office is in Hong Kong with 150 employees.

The Group incurred total staff costs of approximately US$25.5 million in 2006 (2005: US$23.4 million), representing 4.1% of the Group's turnover for the year (2005: 5.4%).

Remuneration of the Group's employees includes fixed basic salaries, discretionary bonuses (based on both the Group's and individual's performance for the year), and long term incentives.

The Group's principal retirement benefit scheme is the Mandatory Provident Fund Scheme (the "MPF Scheme") provided under the Hong Kong Mandatory Provident Fund Schemes Ordinance for those staff employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution scheme under which the employer and its employees are each required to make contributions to the scheme of 5% to 10% of the employees' relevant income, with the employees' mandatory contributions subject to a cap of 5% of monthly relevant income of HK$20,000. The Group's contributions to the scheme are expensed as incurred. When employees leave the scheme prior to the full vesting of the employer's contributions, the amount of forfeited contributions is used to reduce the contributions payable by the Group.

The Company's LTIS allows the Company to award eligible participants with share options and restricted share awards.

Purchase, Sale or Redemption of Securities

During the year, neither the Company nor any of its subsidiaries had purchased, sold or redeemed any of the Company's shares.

Compliance with the Code of Conduct Regarding Directors' Securities Transactions

The Board of Directors has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), as set out in Appendix 10 of the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The Board confirms that, having made specific enquiry of all Directors, the Directors of the Company have complied with the required standard set out in the Model Code and its code of conduct regarding directors' securities transactions.

Compliance with the Code on Corporate Governance Practices

Throughout the year the Group has complied with all mandatory provisions of the Code on Corporate Governance Practices, as contained in Appendix 14 of the Listing Rules. Please refer to the Corporate Governance Report in the 2006 Annual Report.

Review of Audit Committee

The audit committee of the Company has reviewed this annual results announcement and the 2006 Annual Report of the Company for the year ended 31 December 2006.

Final Dividend and Book Closure

The Board of Directors has proposed final dividend for the year ended 31 December 2006 of HK 22.5 cents per share and, if such dividend is declared by the shareholders at the 2007 Annual General Meeting of the Company, it is expected to be paid on or about 17 April 2007 to those shareholders whose names appear on the Company's register of members on 4 April 2007.

The register of members of the Company will be closed from 2 April 2007 to 4 April 2007 (both days inclusive), during which period no transfer of shares in the Company 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 ex-dividend date for the final dividend will be on 29 March 2007.

Annual Report and Disclosure of Information on Stock Exchange's Website

This announcement of annual results containing all the information required by paragraphs 45(1) to 45(8) of Appendix 16 of the Listing Rules will be published on the Stock Exchange's website at www.hkex.com.hk and on the Company's website at www.pacbasin.com.

The Company's 2006 Annual Report will be posted to shareholders on 13 March 2007. An electronic copy of the 2006 Annual Report will also be available on the Company's website at www.pacbasin.com on 14 March 2007.

Directors

As at the date of this announcement, the executive Directors of the Company are Christopher Richard Buttery, Richard Maurice Hext, Klaus Nyborg, Paul Charles Over and Wang Chunlin, the non-executive Directors of the Company are Daniel Rochfort Bradshaw and Dr. Lee Kwok Yin, Simon, and the independent non-executive Directors of the Company are Robert Charles Nicholson, Patrick Blackwell Paul, The Earl of Cromer and David Muir Turnbull.

Please also refer to the published version of this announcement in South China Morning Post.