

The Stock Exchange of Hong Kong Limited takes no responsibility for the contents of this announcement, makes no representation as to its accuracy or completeness and expressly disclaims any liability whatsoever for any loss howsoever arising from or in reliance upon the whole or any part of the contents of this announcement.



Pacific Basin Shipping Limited

太平洋航運集團有限公司*

(incorporated in Bermuda with limited liability)

(Stock Code: 2343)

DISCLOSEABLE TRANSACTIONS: SALE OF FIVE VESSELS AND BAREBOAT CHARTER BACK OF THOSE FIVE VESSELS

On 27 October 2005, the Directors announced that the Sellers, each being an indirect wholly-owned subsidiary of the Company entered into the MOA with the Purchasers (each being owned by the same ultimate beneficial owner), to sell to them the Five Vessels as described herein for a consideration of US\$100,000,000 (approximately HK\$780,000,000). Principal terms of the MOA are set out below in this announcement.

Simultaneously with the signing of the MOA, the Bareboat Charterers, each being an indirect wholly-owned subsidiary of the Company, entered into five bareboat charterparties as described herein with the Purchasers to charter the Five Vessels back into the Company's chartered fleet at agreed charter rates for a fixed period of 12 years.

Under the five bareboat charterparties each of the Bareboat Charterers has the option to individually re-purchase each of the Five Vessels at any time with three months notice during each bareboat charterparty. The purchase option prices will be reduced proportionally for the period of each bareboat charterparty completed. The Company will comply with the relevant requirements under the Listing Rules prevailing if it exercises any of the purchase options. Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of any such purchase option; or (2) the Company notifying the relevant Purchaser that a purchase option will not be exercised.

The disposals contemplated under the MOA and the five bareboat charterparties constitute discloseable transactions of the Company under the Listing Rules and are required to be disclosed by way of this announcement. A circular with further details of these transactions will be issued to Shareholders shortly.

THE DISCLOSEABLE TRANSACTIONS:

THE LEGALLY BINDING MOA

Date : 27 October 2005

Parties : Purchasers: Octans Limited (the "First Purchaser") who shall purchase the First Vessel;
Lochside Limited (the "Second Purchaser") who shall purchase the Second Vessel;
Fearn Limited (the "Third Purchaser") who shall purchase the Third Vessel;
Carina Limited (the "Fourth Purchaser") who shall purchase the Fourth Vessel; and
Alvie Limited (the "Fifth Purchaser") who shall purchase the Fifth Vessel,
each of which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, together with their ultimate beneficial owner (which is the same for each of the Purchasers), is a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

As far as the Directors are aware, having made all reasonable enquiry, (i) the principal business activity of the Purchasers will be the owning of the Five Vessels and the principal business activity of the ultimate beneficial owner of the Purchasers is the owning and financing of shipping vessels; and (ii) save for the relationships arising from the MOA, there are no other relationships amongst the Purchasers and their ultimate beneficial owner and other vendors, purchasers and ship-owners and their respective ultimate beneficial owners with whom the Company has entered into transactions to acquire, dispose of, or charter in vessels during the past 12 months before the date of the MOA.

Sellers: Thompson Shipping (BVI) Limited who shall sell the First Vessel, Spencer Shipping (BVI) Limited who shall sell the Second Vessel, Othello Shipping (BVI) Limited who shall sell the Third Vessel, Mirs Shipping (BVI) Limited who shall sell the Fourth Vessel and Caterina (BVI) Limited who shall sell the Fifth Vessel, each an indirect wholly-owned subsidiary of the Company.

Assets to be sold : First Vessel: A 2004 built handysize dry bulk carrier constructed in Japan of 31,893dwt, named "Timaru Star". The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.

- Second Vessel: A 2004 built handysize dry bulk carrier constructed in Japan of 32,774 dwt, named "Port Pegasus". The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.
- Third Vessel: A 2002 built handysize dry bulk carrier constructed in Japan of 28,379dwt, named "Albany Sound". The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.
- Fourth Vessel: A 2002 built handysize dry bulk carrier constructed in Japan of 28,461dwt, named "Ocean Exporter". The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.
- Fifth Vessel: A 2001 built handysize dry bulk carrier constructed in Japan of 28,438dwt, named "Cape Nelson". The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.

- Net Profits attributable to the Five Vessels : The Five Vessels were all acquired by the Company on 31 March 2004. The net profits attributable to the Five Vessels for the financial year ended 31 December 2004 (audited) and for the six months ended 30 June 2005 (unaudited) were US\$13,943,000 (approximately HK\$108,755,400) and US\$11,788,000 (approximately HK\$91,946,400) respectively. There is no taxation on the net profits attributable to the Five Vessels.
- Revenues attributable to the Five Vessels : The revenues attributable to the Five Vessels for the financial year ended 31 December 2004 (audited) and for the six months ended 30 June 2005 (unaudited) were US\$22,924,000 (approximately HK\$178,807,200) and US\$18,220,000 (approximately HK\$142,116,000) respectively.
- Value of the Five Vessels : The carrying value of the Five Vessels in the Company's accounts as at the date of this announcement was estimated to be US\$70,823,000 (approximately HK\$552,419,400).
- Consideration : US\$100,000,000 (approximately HK\$780,000,000) (a lump sum figure for the Five Vessels and there is no allocation of the consideration to individual vessels in the MOA), which was determined by reference to other sale and charter back transactions entered into by the Company with different and independent counterparties and after arm's length negotiation between the parties. However, as is commonly the case in the dry bulk carrier market, there have not been any recently published sale and charter backs by third party vendors of vessels of the exact size of the Five Vessels from which to make a direct comparison. In addition, no third party valuation has been performed on any of the Five Vessels.
- The Directors believe that the consideration, which was determined after arm's length negotiation, on normal commercial terms, is fair and reasonable so far as the Company and the Shareholders are concerned and is in the interests of the Company and the Shareholders as a whole.
- Payment terms : The consideration for the sale of the Five Vessels was US\$100,000,000 (approximately HK\$780,000,000), which was received upon signing of the MOA.
- Completion : Pursuant to the MOA, the latest date for completion is 30 November 2005 unless the parties otherwise agree. The Directors currently expect that completion and delivery of the Five Vessels will take place on or before 30 November 2005. The bareboat charterparties will commence on the date of delivery of the Five Vessels. Pacific Basin will make a further announcement if completion does not take place by 30 November 2005.
- Intended use of proceeds : The intended application of the sale proceeds will include the repayment of bank borrowings on the Five Vessels (61% or US\$60,553,000, approximately HK\$472,313,400) and the prepayment of other bank borrowings (39% or US\$39,447,000, approximately HK\$307,686,600). The sum of the above repayment and prepayment of long-term bank borrowings included US\$5,262,000 (approximately HK\$41,043,600) being the current portion of these borrowings.

THE BAREBOAT CHARTERPARTIES

- Date of bareboat charterparties : 27 October 2005 (with charters commencing upon delivery of the Five Vessels to their respective Purchaser)
- Parties : Owners: The First Purchaser chartered out the First Vessel, the Second Purchaser chartered out the Second Vessel, the Third Purchaser chartered out the Third Vessel, the Fourth Purchaser chartered out the Fourth Vessel and the Fifth Purchaser chartered out the Fifth Vessel, each of which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, together with their ultimate beneficial owner (which is the same for each of the Purchasers), is a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company.
- As far as the Directors are aware, having made all reasonable enquiry, the principal business activity of the Purchasers will be the owning of the Five Vessels and the principal business activity of the ultimate beneficial owner of the Purchasers is the owning and financing of shipping vessels.
- Bareboat Charterers: Pacific Basin Chartering (No.6) Limited chartered in the First Vessel, Pacific Basin Chartering (No.7) Limited chartered in the Second Vessel, Pacific Basin Chartering (No.8) Limited chartered in the Third Vessel, Pacific Basin Chartering (No.9) Limited chartered in the Fourth Vessel and Pacific Basin Chartering (No.10) Limited chartered in the Fifth Vessel, each an indirect wholly-owned subsidiary of the Company.

Assets to be chartered in	:	<p>The Five Vessels.</p> <p>The Purchasers, as the new owners of the Five Vessels, do not have the right to change the flag, name or registration of the vessels.</p>
Guarantee	:	<p>In connection with the bareboat charter back of the Five Vessels, PB Vessels Holding Limited, a wholly-owned subsidiary of the Company, has entered into a guarantee with each of the Purchasers to guarantee the performance of each of the Bareboat Charterers of all of their obligations, duties and liabilities (including payment of outstanding charter hire payments) under the bareboat charterparties.</p>
Period and payments under the bareboat charterparties	:	<p>The Bareboat Charterers shall pay the Purchasers approximately US\$2,730,000 (approximately HK\$21,294,000) in charter hire payments quarterly (for the Five Vessels in total) during the period of the bareboat charterparties which is for a fixed period of 12 years from the date of delivery and completion of the sale of the Five Vessels. The charter hire payments are lump sum figures with no allocation to individual vessels in the charterparty. Such payments shall be satisfied from the freight and charterhire revenues generated by the Group.</p> <p>The bareboat charter rates were determined after arm's length negotiation, on normal commercial terms, and by reference to the consideration paid by the Purchasers for the Five Vessels.</p> <p>There is no early termination clause in the bareboat charterparties. However, under the five bareboat charterparties the Company has the option (which is not transferable) to repurchase any of the Five Vessels with three months notice at any time during each bareboat charterparty. The purchase option prices will be reduced proportionally for the period of each bareboat charterparty completed. The purchase option prices contained in the relevant bareboat charterparty agreement for the relevant vessel are on normal commercial terms and represent the sales consideration (as paid by the Purchasers under the MOA) less the principal repaid through the bareboat charter up to until the date the purchase option is exercised.</p> <p>Although the MOA does not specify the individual sales price for the Five Vessels, the repurchase price for each of the vessels at different points in time are pre-determined and set out in a schedule to the MOA. The aggregate purchase option price for the Five Vessels at the end of the 12 year bareboat charterparties is US\$28,600,000 (approximately HK\$223,080,000) (which is the sales consideration minus the principal repaid during the 12 year charter period). Upon exercise of an option, the Bareboat Charterer is also required to pay 35% of the amount by which the then fair market price, to be determined by reference to market data at the time of the sale, exceeds the purchase option price (the same mark-up will also apply if the option is exercised before the expiry of the bareboat charterparty).</p> <p>The Company will comply with the relevant requirements under the Listing Rules prevailing if it exercises any of the purchase options.</p> <p>Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of any such purchase option; or (2) the Company notifying the relevant Purchaser that a purchase option will not be exercised.</p>
Accounting treatment	:	<p>In accordance with Hong Kong Accounting Standard No. 17 "Leases" finance lease accounting has been adopted for the transaction which means (i) the balance sheet will continue to show the net carrying value of the Five Vessels; (ii) the fixed assets note to the Company's accounts will disclose that the Five Vessels should be classified as "leased assets" rather than "fixed assets" and (iii) the current and long-term liabilities in aggregate will remain unchanged as bank borrowings secured on the Five Vessels and other bank borrowings which have been repaid out of the entire sale proceeds are replaced by finance lease obligations of an equivalent amount, i.e. US\$100,000,000 (approximately HK\$780,000,000).</p> <p>The Five Vessels will continue to be depreciated, with the same charge to the profit and loss account over their remaining useful lives in the same manner as when the Five Vessels were owned by the Company. The charter hire payments of approximately US\$2,730,000 (approximately to HK\$21,294,000) every quarter arising under the bareboat charterparties will be accounted for as a combination of (a) repayments of finance lease obligations held on the balance sheet and (b) finance charges in the profit and loss account during the charter period, in accordance with Hong Kong Accounting Standard No. 17 "Leases".</p>

Financial effects of the sale and bareboat charter back:

It has been confirmed with the auditors of the Company that as a result of using finance lease accounting there is no recognition of any gain or loss on the disposal of the Five Vessels.

The intended application of the sale proceeds of US\$100,000,000 (HK\$780,000,000) will include the repayment of bank borrowings on the Five Vessels (61%) and the prepayment of other bank borrowings (39%), the sum of which includes US\$5,262,000 (approximately HK\$41,043,600) being the current portion of these long-term bank borrowings. The Company's current and long-term liabilities in aggregate will remain unchanged as bank borrowings (US\$60,553,000, approximately HK\$472,313,400) secured on the Five Vessels and other bank borrowings (US\$39,447,000, approximately to HK\$307,686,600) which have been repaid out of the entire sale proceeds are replaced by finance lease obligations of an equivalent amount. However, the current portion of the bank borrowings repaid and prepaid was US\$5,262,000 (approximately HK\$41,043,600) whereas the current portion of the finance lease obligations is US\$3,923,000 (approximately HK\$30,599,400).

There is not expected to be any material impact on the Company's results of operations upon entering into the MOA and the bareboat charterparties for the Five Vessels or by adopting finance lease accounting as compared with immediately prior to the entering of the MOA and the bareboat charterparties for the Five Vessels when the Five Vessels were owned by the Company.

The sale and charter back of the Five Vessels will not have any effect upon the number of revenue days nor have a significant effect upon the earnings of the Company. The Company will continue to be responsible for the technical operation of the Five Vessels and will continue to incur both the direct operating costs and the new servicing costs, calculated in accordance with Hong Kong Accounting Standard No. 17, of the financing of the Five Vessels.

REASONS FOR THE SALE AND BAREBOAT CHARTER BACK OF THE FIVE VESSELS

The Company is one of the world's leading dry bulk shipping companies operating principally in the Asia Pacific region, currently seeking opportunities to acquire additional handysize vessels to expand its fleet to meet growing customer demand and deliver sustainable growth and long-term shareholder value. With a large fleet of modern, uniformly-sized vessels, the Company seeks to offer its customers a strong, reliable service with a high degree of scheduling flexibility whilst maintaining the Company's operational efficiency. The transaction outlined above is consistent with this strategy by generating cash which can later be used to expand the Company's fleet.

Furthermore, the transaction outlined above enables the Company to repay bank borrowings on the Five Vessels (US\$60,553,000, approximately HK\$472,313,400) and to prepay other bank borrowings (US\$39,447,000, approximately HK\$307,686,600) and to retain commercial and operational control over the Five Vessels. The prepayment of other bank borrowings which are held under secured revolving facilities, results in an increase to such undrawn facilities of US\$39,447,000 (approximately HK\$307,686,600) which can be re-utilised by the Company from such banks at such time as the Company finds further investment opportunities to expand its business.

The Directors believe that the terms of the MOA and the bareboat charterparties of the Five Vessels, which were determined after arm's length negotiation, on normal commercial terms, are fair and reasonable so far as the Company and the Shareholders are concerned and are in the interests of the Company and the Shareholders as a whole.

At the signing of the MOA and as at the date of this announcement, the Company has a fleet of 50 vessels (1,498,406dwt), comprising 23 owned vessels (666,082dwt), 23 chartered-in vessels, which includes the Five Vessels (725,153dwt) and 4 managed vessels (107,171dwt). The Company has six newbuilding vessels on order, one of which is scheduled to deliver in April 2006, two in November 2006, one in June 2007, one in August 2007 and one in December 2007.

Two of these newbuildings (60,100dwt) will enter into the owned fleet and four will enter into the chartered-in fleet (116,200dwt).

The sale of the Five Vessels contemplated under the MOA and the bareboat charter back of the Five Vessels, constitute discloseable transactions of the Company under the Listing Rules and are required to be disclosed by way of this announcement. A circular with further details of these transactions will be issued to Shareholders shortly.

DEFINITIONS

In this announcement, unless the context otherwise requires, the following terms shall have the following meanings:

- "banking days" means the days on which banks are open in London, Hong Kong, Tokyo, Singapore, Hamburg and New York;
- "bareboat charter" means a charter for an agreed period of time during which the shipowner provides only the ship while the charterer provides the crew together with all stores and bunkers and pays all operating costs;
- "Bareboat Charterers" means Pacific Basin Chartering (No.6) Limited, Pacific Basin Chartering (No.7) Limited, Pacific Basin Chartering (No.8) Limited, Pacific Basin Chartering (No.9) Limited and Pacific Basin Chartering (No.10) Limited, each an indirect wholly-owned subsidiary of the Company and "Bareboat Charterer" means each and any one of them;
- "bareboat charterparty" means the document containing the agreement between both the owner of a ship and the bareboat charterer, signed by both, in which are all the terms and conditions such as the period of the charter, the rate of hire, the trading limitations, i.e. geographical limits specified in a charterparty outside which the bareboat charterer is not permitted to order the ship and all rights and responsibilities of both parties which are consistent with transactions in the shipping industry;
- "Company" or "Pacific Basin" means Pacific Basin Shipping Limited, a limited company incorporated in Bermuda with limited liability, whose shares are listed on the main board of the Stock Exchange;
- "Directors" means the directors of the Company;
- "dwt" means dead weight tonnes, the unit of measurement of weight capacity of vessels, which is the total weight the ship can carry, including cargo, bunkers, water, stores, spares, crew etc. at a specified draft;
- "Fifth Purchaser" Alvie Limited;
- "Fifth Vessel" A 2001 built handysize dry bulk carrier constructed in Japan of 28,438dwt, named "Cape Nelson". The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai;
- "First Purchaser" Octans Limited;
- "First Vessel" A 2004 built handysize dry bulk carrier constructed in Japan of 31,893dwt, named "Timaru Star". The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai;
- "Five Vessels" means the First Vessel, the Second Vessel, the Third Vessel, the Fourth Vessel and the Fifth Vessel;
- "Fourth Purchaser" Carina Limited;
- "Fourth Vessel" A 2002 built handysize dry bulk carrier constructed in Japan of 28,461dwt, named "Ocean Exporter". The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai;
- "Group" means the Company and its subsidiaries, which are principally engaged in the provision of marine transportation and logistical support services;
- "Hong Kong" means the Hong Kong Special Administrative Region of the People's Republic of China;
- "Listing Rules" means The Rules Governing the Listing of Securities on the Stock Exchange;

“MOA”	means the legally binding unconditional Memorandum of Agreement dated 27 October 2005 entered into between the Sellers and the Purchasers in respect of the sale of the Five Vessels;
“Purchasers”	means the First Purchaser, the Second Purchaser, the Third Purchaser, the Fourth Purchaser and the Fifth Purchaser and “Purchaser” shall mean each and any one of them as the context so requires;
“Second Purchaser”	Lochside Limited;
“Second Vessel”	A 2004 built handysize dry bulk carrier constructed in Japan of 32,774 dwt, named “Port Pegasus”. The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai;
“Sellers”	Thompson Shipping (BVI) Limited, Spencer Shipping (BVI) Limited, Othello Shipping (BVI) Limited, Mirs Shipping (BVI) Limited and Caterina (BVI) Limited, each an indirect wholly-owned subsidiary of the Company;
“Shareholders”	means the shareholders of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Third Purchaser”	Fearn Limited; and
“Third Vessel”	A 2002 built handysize dry bulk carrier constructed in Japan of 28,379dwt, named “Albany Sound”. The flag of the vessel is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.

By Order of the Board
Andrew Broomhead
Company Secretary

Hong Kong, 27 October 2005

* *For identification purposes only*

As at the date of this announcement, the executive directors of the Company are Christopher Richard Buttery, Richard Maurice Hext, Mark Malcolm Harris and Paul Charles Over, the non-executive directors of the Company are Lee Kwok Yin, Simon, and Brian Paul Friedman, and the independent non-executive directors of the Company are Robert Charles Nicholson, Patrick Blackwell Paul and The Earl of Cromer.

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