Pacific Basin Shipping Limited

(*incorporated in Bermuda with limited liability*)
(Stock Code: 2343)

DISCLOSEABLE TRANSACTIONS
SALE OF SIX ROLL-ON ROLL-OFF VESSELS

BACKGROUND

PB RoRo Limited (an indirect wholly-owned subsidiary of the Company) and six other indirect wholly-owned subsidiaries of the Company entered into the Agreement with Atlantica SPA di Navigazione ("Atlantica"). Pursuant to the Agreement, Atlantica (i) has agreed to purchase six Roll-on Roll-off vessels (the "Vessels") from the respective Owning Companies for an aggregate consideration of €153,000,000; and (ii) is obliged to purchase at least one Vessel by the end of each of the six month periods ending 30 June 2013, 31 December 2013, 30 June 2014, 31 December 2014, 30 June 2015, 31 December 2015 and pay the relevant portion of the aggregate consideration on the respective delivery dates.

The transactions to sell the Vessels under the Agreement constitute discloseable transactions of the Company under the Listing Rules and therefore are required to be disclosed by way of this announcement. Principal terms of the Agreement are set out below.

THE AGREEMENT

Date : 6 September 2012

Parties – Sellers :
(i) Illuminous Limited, owning Strait of Magellan;
(ii) Kumberstar Limited, owning Bering Strait;
(iii) Dover Sole Limited, owning Strait of Dover;
(iv) Gibraltar Strait Limited, owning Strait of Gibraltar;
(v) Prospect Number 59 Limited, owning Humber Viking;
(vi) Prospect Number 60 Limited, owning Strait of Messina
(each an "Owning Company" and collectively the "Owning Companies"); and
(vii) PB RoRo Limited, the immediate holding company of the Owning Companies,
each being an indirect wholly-owned subsidiary of the Company.

– Purchaser : Atlantica SPA di Navigazione, a company within the Grimaldi Group. To the best of the knowledge, information and belief of the directors of the Company (the "Directors"), having made all reasonable enquiry,

(i) Atlantica, together with its ultimate beneficial owner, are not connected persons (as defined in the Listing Rules) of the Company and are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company;
(ii) the principal business activity of Atlantica and its ultimate beneficial owner is the owning, operating and managing of shipping vessels, maritime services, ports, terminals and logistics; and
(iii) save for the transactions disclosed in this announcement, during the 12 months period prior to the date of the Agreement, the Company has not entered into any transaction with Atlantica or its ultimate beneficial owner or with parties connected or otherwise associated with one another and there are no other relationships between Atlantica or its ultimate beneficial owner with whom the Company has entered into transactions to acquire, dispose of, or charter in vessels.

Assets to be sold : Six RoRo vessels (each a "Vessel" and collectively the "Vessels"), namely:
Strait of Magellan: 2011-built 3,663 lane metres ("Vessel A");
Bering Strait: 2012-built 3,663 lane metres ("Vessel B");
Strait of Dover: 2010-built 3,810 lane metres ("Vessel C");
Strait of Gibraltar: 2010-built 3,810 lane metres ("Vessel D");
Humber Viking: 2009-built 3,663 lane metres ("Vessel E"); and
Strait of Messina: 2011-built 3,663 lane metres ("Vessel F").

Aggregate loss/profit before and after taxation attributable to the Vessels	:	For the financial year ended 31 December 2011: €61.8 million loss (US$88.1 million) (included an impairment of €55.9 million (US$80 million)). For the financial year ended 31 December 2010: €0.6 million profit (US$0.9 million).
Carrying values of the Vessels	:	The carrying values of the Vessels in the Company's unaudited consolidated accounts as at 31 July 2012 (including the impact of the US$190 million impairment announced by the Company on 18 June 2012), are: Vessel A : €24.3 million (approx. US$29.8 million), Vessel B : €24.6 million (approx. US$30.2 million), Vessel C : €23.4 million (approx. US$28.8 million), Vessel D : €23.5 million (approx. US$28.9 million), Vessel E : €22.6 million (approx. US$27.7 million), and Vessel F : €23.8 million (approx. US$29.2 million).
The Purchase Obligations	:	The exercise price of the Purchase Obligations is €153,000,000 (approx. US$187,884,000) in aggregate, to be payable by Atlantica entirely in cash upon its exercise of the respective Purchase Obligation under the Agreement. A €10,000,000 (approx. US$12,280,000) deposit is payable by Atlantica at the time of the Agreement which will be deducted from the payment of the purchase price of the first Vessel purchased. The exercise price of the respective Purchase Obligations are €25,000,000 (approx. US$30,700,000) for each of Vessels A, B, E and F, and €26,500,000 (approx. US$32,542,000) for each of Vessels C and D. Such consideration was determined after arm's length negotiation between the parties and by reference to market intelligence the Company had gathered from shipbrokers and its own analysis of RoRo vessels of comparable size and year of build in the market. However, in view of the limited size of the RoRo shipping market, there have not been any recently published sales by third party vendors of comparable RoRo vessels from which to make a direct comparison. In addition, no third party valuation has been performed on the Vessels.
Guarantee	:	(i) PB RoRo Limited has provided a performance guarantee to Atlantica in respect of the Owning Companies' respective obligations under the Agreement and the Bareboat Charterparties; and (ii) Grimaldi Compagnia di Navigazione, the parent company of Atlantica, has provided a guarantee to the Owning Companies that Atlantica shall remain as its subsidiary until the final Vessel has been purchased by and delivered to Atlantica pursuant to the Agreement and the Bareboat Charterparties.
Completion and delivery	:	Pursuant to the terms of the Agreement: Atlantica has agreed to purchase the Vessels from the respective Owning Companies at a date of their choice commencing from the date of the Agreement with an obligation to purchase at least one Vessel by the end of each of the six month periods ending 30 June 2013, 31 December 2013, 30 June 2014, 31 December 2014, 30 June 2015, and 31 December 2015. Simultaneously with the signing of the Agreement, the Owning Companies entered into the Bareboat Charterparties with Atlantica to charter the Vessels to Atlantica at agreed charter rates, expiring with the purchase and delivery of title of the respective Vessels to Atlantica under the Agreement. The Bareboat Charterparties are not classified as "leases" in accordance with the Hong Kong Financial Reporting Standards and accordingly do not constitute discloseable transactions of the Company under Chapter 14 of the Listing Rules. The Company expects that the bareboat charters of Vessel A and Vessel B will commence by 31 October 2012, the bareboat charters of Vessel C and Vessel D will commence by 31 January 2013 and the bareboat charters of Vessel E and Vessel F are expected to commence around the end of the first quarter of 2013 (but no later than April 2014 for Vessel F) after their current charters expire (the "Bareboat Charter Dates"). Under the Bareboat Charterparties, the Owning Companies shall receive from Atlantica charter-hire payments in cash each month. The bareboat charter rates were determined after arm's length negotiation, on normal commercial terms and by reference to the Purchase Obligation prices and the prevailing market charter rates of RoRo vessels similar to the Vessels.
Application of sale proceeds	:	The Company intends to apply the sale proceeds to working capital including the repayment of bank loans and capital expenditure in line with the strategy of the board of Directors (the "Board").

FINANCIAL EFFECTS OF THE TRANSACTIONS

The transactions to sell the six Vessels under the Agreement will be treated as sales, as at the Bareboat Charter Dates, in accordance with the Hong Kong Financial Reporting Standards.

The transactions result in an updated assessment of the carrying value of the six Vessels using their expected cash proceeds and charter receipts. The result is a minor impairment charge estimated to be US$0.4 million and will be reflected in the Group's income statement for the year ending 31 December 2012.

The carrying value of the six Vessels immediately after the additional impairment charge will become approximately US$174.2 million. On the date of the Agreement, the carrying value of each of the Vessels will be reclassified as assets held for sale in the balance sheet. On the Bareboat Charter Dates, the value of assets held for sale of each of the Vessels will be de-recognised from the balance sheet. Receivables will be recognised in the balance sheet representing the present value of the sale proceeds and charter receipts and will have similar values to the assets held for sale, resulting in a negligible gain or loss on the accounting disposal of the Vessels. The difference between the gross receivable and the present value of the receivables is recognised as interest income reflecting the time value of money (the "Interest Income") over the periods of the bareboat charters.

The Group maintains a foreign exchange reserve for the translation to US Dollars of the Euro-denominated net asset value of the Owning Companies. Each Vessel disposal will result in the release of the cumulative foreign exchange reserve relating to each Owning Company to the consolidated income statement of the Company (the "Exchange Losses") at the Bareboat Charter Dates.

Based on the exchange rate as at 31 July 2012, the Exchange Losses to be released in 2012 and 2013 would be US$11.1 million for Vessels A and B, and US$16.5 million for Vessels C, D, E and F. The Exchange Losses are non-cash and will continue to reflect foreign exchange translation movements of the net asset values of the six Owning Companies until the Bareboat Charter Dates. An approximate 1% weakening or strengthening of the Euro exchange rate from US$1.228 per €1.0 at 31 July 2012 would result in a US$1.0 million increase or decrease in the combined Exchange Losses.

The Owning Companies will cease to incur depreciation charges from the date of the Agreement and will cease to incur other direct operating costs from the Bareboat Charter Dates. The Owning Companies' functional currency will change to US Dollars from the Bareboat Charter Dates and will continue to be impacted by foreign exchange translation movements including the translation of the underlying receipts and payments in the Owning Companies.

The six Vessels' revenue days will be 100% covered from the Bareboat Charter Dates until the Purchase Obligations are fulfilled. The current estimated financial effect of the transactions on the six Vessels sold in the consolidated income statement of the Company are as follows:

US$'million	2012	2013	2014	2015	Total
Interest Income	0.6	8.5	6.1	2.7	17.9
Additional impairment charge	(0.4)	–	–	–	(0.4)
Exchange Losses*	(11.1)	(16.5)	–	–	(27.6)
Total	(10.9)	(8.0)	6.1	2.7	(10.1)

* Actual Exchange Losses may differ from the above as they will continue to reflect foreign exchange translation movements of the net asset values of the six Owning Companies until the Bareboat Charter Dates.

Note: An exchange rate of US$1.228 to €1.0 has been used for the conversion of Euro into US Dollars for the purpose of this announcement.

REASONS FOR THE TRANSACTIONS

On 18 June 2012, we announced that a reassessment of the prospects for our RoRo business had resulted in a downgraded outlook for the short and long-term earnings of our RoRo fleet and we no longer regard RoRo shipping to be a core activity of the Pacific Basin group and consequently, we would look to exit the sector in an economically rational manner that realises the maximum possible value for our shareholders over the medium term.

The Board believes the transactions to sell all of its six Vessels under the Agreement and to secure full employment for the Vessels under the Bareboat Charterparties fully address that exit plan.

The Directors believe that the terms of the Agreement and the Bareboat Charterparties, which were determined after arm's length negotiation on normal commercial terms, represent acceptable sale prices in the context of current market conditions and are fair, reasonable and in the interests of the Company and its shareholders as a whole.

PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

Pacific Basin Shipping Limited is one of the world's leading owners and operators of modern Handysize and Handymax dry bulk vessels. The Company is listed and headquartered in Hong Kong, and currently operates in three maritime sectors under the banners of Pacific Basin Dry Bulk, PB Towage, and PB RoRo. The Company's fleet (including newbuildings on order) comprises over 230 vessels directly servicing blue chip international customers. With 2,000 seafarers and 300 shore-based staff in 19 offices in key locations around the world, Pacific Basin provides a comprehensive quality service to a wide range of customers.

DEFINITIONS

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

"Agreement"	means the legally binding agreement effective on 6 September 2012 entered into between PB RoRo Limited, the Owning Companies and Atlantica, pursuant to which Atlantica has agreed to purchase the Vessels from the respective Owning Companies over a specified period of time;
"Bareboat Charterparties"	means the six charterparty contracts and the respective memoranda of agreement annexed thereto, all effective on 6 September 2012, entered into between each of the Owning Companies as shipowner and Atlantica as bareboat charterer of the respective Vessel, where a bareboat charter refers to a charter of a ship 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 of the vessel;
"Company" or "Pacific Basin"	means Pacific Basin Shipping Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the main board of the Stock Exchange;
"lane metres"	means the unit of measurement of capacity of RoRo vessels, which is calculated by multiplying the cargo deck length in metres by the cargo deck width in lanes;
"Listing Rules"	means The Rules Governing the Listing of Securities on the Stock Exchange;
"Purchase Obligations"	means the obligations of Atlantica to purchase the Vessels from the respective Owning Company in accordance with the terms and conditions of the Agreement;
"Roll-on Roll-off" or "RoRo"	means roll-on roll-off transportation which involves the carriage of wheeled cargoes and freight on wheeled trailers which can be loaded and discharged over a ramp, rather than lifted on and off the vessels using cranes; and
"Stock Exchange"	means The Stock Exchange of Hong Kong Limited.

By Order of the Board
Pacific Basin Shipping Limited
Mok Kit Ting, Kitty
Company Secretary

Hong Kong, 7 September 2012

As at the date of this announcement, the executive Directors of the Company are David Muir Turnbull, Mats Henrik Berglund, Jan Rindbo, Andrew Thomas Broomhead, Wang Chunlin and Chanakya Kocherla, and the independent non-executive Directors of the Company are Patrick Blackwell Paul, Robert Charles Nicholson, Alasdair George Morrison and Daniel Rochfort Bradshaw.