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**If you are in any doubt** as to any aspect about this circular or as to the action to be taken, you should consult a stockbroker or other registered dealer in securities, bank manager, solicitor, professional accountant or other professional adviser.

**If you have sold or otherwise transferred** all your shares in Pacific Basin Shipping Limited, you should at once hand this circular to the purchaser(s) or the transferee(s) or to the bank, stockbroker or other agent through whom the sale or transfer was effected for transmission to the purchaser(s) or the transferee(s).

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**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:**

**(1) SALE OF FIVE VESSELS**

**AND BAREBOAT CHARTER BACK OF THOSE FIVE VESSELS;**

**(2A) ACQUISITION OF SOLAR OCEANIA;**

**(3A) SALE OF CAPE JAFFA AND TIME CHARTER BACK OF CAPE JAFFA;**

**(4A) SALE OF PORT ANGELES AND TIME CHARTER BACK OF PORT ANGELES;**

**(2B) ACQUISITION OF PITT ISLAND;**

**(3B) SALE OF PORT ALICE AND TIME CHARTER BACK OF PORT ALICE; AND**

**(4B) SALE OF XIAMEN SKY AND TIME CHARTER BACK OF XIAMEN SKY**

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\* *For identification purposes only*

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## DEFINITIONS

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*In this circular, the following expressions have the following meanings unless the context requires otherwise:*

“1 MOA”	means the legally binding unconditional Memorandum of Agreement dated 18 August 2005 entered into between the Sellers and the Purchasers in respect of the sale of the Five Vessels;
“1A Purchaser”	Danad Shipping Company Limited;
“1A Vessel”	means a handysize dry bulk carrier of approximately 28,433dwt, named “Cape Flattery”;
“1B Purchaser”	Garboard Shipping Limited;
“1B Vessel”	means a handysize dry bulk carrier of approximately 31,894dwt, named “Cook Strait”;
“1C Purchaser”	Kathmandu Shipping Company Limited;
“1C Vessel”	means a handysize dry bulk carrier of approximately 32,754dwt, named “Sun Ruby”;
“1D Purchaser”	Mullen Shipping Company Limited;
“1D Vessel”	means a handysize dry bulk carrier of approximately 32,751dwt, named “Black Forest”
“1E Purchaser”	Santa Fe Shipping Company Limited;
“1E Vessel”	means a handysize dry bulk carrier of approximately 28,483dwt, named “Mount Travers”;
“2A MOA”	means the legally binding unconditional Memorandum of Agreement dated 24 August 2005 entered into between Lake Joy Limited and Solar Oceania Corp. for the acquisition of Solar Oceania by Lake Joy Limited, a wholly-owned subsidiary of the Company;
“2B MOA”	means the legally binding unconditional Memorandum of Agreement dated 16 December 2004 entered into between Dionysus Maritime S.A. and Pitt Island Limited, a wholly-owned subsidiary of the Company, for the acquisition of Pitt Island by Pitt Island Limited;

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## DEFINITIONS

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“3A MOA”	means the legally binding unconditional Memorandum of Agreement dated 24 August 2005 entered into between Monarch Maritime S.A. and Labrador Shipping (BVI) Limited, a wholly-owned subsidiary of the Company, for the acquisition of Cape Jaffa by Monarch Maritime S.A.;
“3B MOA”	means the legally binding unconditional Memorandum of Agreement dated 18 March 2005 entered into between Citrus Maritime S.A. and Port Alice Limited, a wholly-owned subsidiary of the Company, for the acquisition of Port Alice by Citrus Maritime S.A.;
“4A MOA”	means the legally binding unconditional Memorandum of Agreement dated 25 August 2005 entered into between Glory Ocean Shipping S.A. and Port Angeles Limited, a wholly-owned subsidiary of the Company, for the acquisition of Port Angeles by Glory Ocean Shipping S.A.;
“4B MOA”	means the legally binding unconditional Memorandum of Agreement dated 28 April 2005 entered into between Glory Ocean Shipping S.A. and Great Strength Assets Limited, a wholly-owned subsidiary of the Company, for the acquisition of Xiamen Sky by Glory Ocean Shipping S.A.;
“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 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 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;

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## DEFINITIONS

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“Bareboat Charterers”	means Pacific Basin Chartering (No.1) Limited, Pacific Basin Chartering (No.2) Limited, Pacific Basin Chartering (No.3) Limited, Pacific Basin Chartering (No.4) Limited and Pacific Basin Chartering (No.5) Limited, each an indirect wholly-owned subsidiary of the Company;
“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;
“Five Vessels”	means the 1A Vessel, the 1B Vessel, the 1C Vessel, the 1D Vessel and the 1E Vessel;
“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;
“Latest Practicable Date”	means 16 September 2005, being the latest practicable date prior to the printing of this circular for ascertaining certain information contained herein;
“Listing Rules”	means The Rules Governing the Listing of Securities on the Stock Exchange;
“Long Term Incentive Scheme”	means the share option scheme adopted by the Company on 17 June 2004 and amended and re-named the long term incentive scheme pursuant to a resolution passed by Shareholders at a special general meeting on 8 June 2005;
“Pitt Island Acquisition”	means the acquisition of Pitt Island by Pitt Island Limited, a wholly-owned subsidiary of the Company, from Dionysus Maritime S.A.;
“Port Alice Disposal”	means the sale of Port Alice by Port Alice Limited, a wholly-owned subsidiary of the Company to Citrus Maritime S.A.;

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## DEFINITIONS

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“Purchasers”	means the 1A Purchaser, the 1B Purchaser, the 1C Purchaser, the 1D Purchaser and the 1E Purchaser and “Purchaser” shall mean each and any one of them as the context so requires;
“Sellers”	Cape Flattery Limited, Good Future International Holdings Limited, Riley Shipping (BVI) Limited, Quincy Shipping (BVI) Limited and Kia Shipping (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;
“time charter”	charter for an agreed period of time where ship owner is paid on a per day basis and is responsible for operating the vessel, providing the crew (but not the bunkers and stores) and paying the operating costs while the charterer is responsible for paying the voyage costs (including bunkers and stores during the course of the charter) and bears the risk of any delays at port or during the voyage except where caused by a defect of the ship;
“time charterparty”	means the agreement containing the terms and conditions of a contract between the charterer and shipowner for the hire of a vessel for a period of time; and
“Xiamen Sky Disposal”	means the sale of Xiamen Sky by Great Strength Assets Limited, a wholly-owned subsidiary of the Company, to Glory Ocean Shipping S.A.

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LETTER FROM THE BOARD OF DIRECTORS

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**Pacific Basin Shipping Limited**

**太平洋航運集團有限公司\***

*(incorporated in Bermuda with limited liability)*

**(Stock Code: 2343)**

*Executive Directors:*

Christopher Richard Buttery  
Richard Maurice Hext  
Mark Malcolm Harris  
Paul Charles Over

*Registered Office:*

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*Non-Executive Directors:*

Lee Kwok Yin, Simon  
Brian Paul Friedman

*Hong Kong Principal Office:*

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Central  
Hong Kong

*Independent Non-Executive Directors:*

Robert Charles Nicholson  
Patrick Blackwell Paul  
The Earl of Cromer

20 September 2005

*To the Shareholders*

Dear Sir or Madam

**DISCLOSEABLE TRANSACTIONS:**

**(1) SALE OF FIVE VESSELS AND  
BAREBOAT CHARTER BACK OF THOSE FIVE VESSELS**

**INTRODUCTION**

On 18 August 2005, the Directors announced that the Sellers, each being an indirect wholly-owned subsidiary of the Company entered into the 1 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 1 MOA are set out below in this circular.

Simultaneously with the signing of the 1 MOA, the Bareboat Charterers, each being a 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

\* For identification purposes only

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## LETTER FROM THE BOARD OF DIRECTORS

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chartered fleet at agreed charter rates for a fixed period of ten years. The Directors disclosed additional details of the bareboat charterparties by way of a further announcement made on 5 September 2005.

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 1 MOA and the five bareboat charterparties constitute discloseable transactions of the Company under the Listing Rules. This document constitutes the circular which the Company is required to send to you pursuant to the Listing Rules in relation to the sale and bareboat charter back of the Five Vessels.

### THE 1 MOA

Date: 18 August 2005

Parties: Purchasers: Danad Shipping Company Limited (the “1A Purchaser”) who shall purchase the 1A Vessel, Garboard Shipping Limited (the “1B Purchaser”) who shall purchase the 1B Vessel, Kathmandu Shipping Company Limited (the “1C Purchaser”) who shall purchase the 1C Vessel, Mullen Shipping Company Limited (the “1D Purchaser”) who shall purchase the 1D Vessel and Santa Fe Shipping Company Limited (the “1E Purchaser”) who shall purchase the 1E 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 is 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.



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## LETTER FROM THE BOARD OF DIRECTORS

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- Sellers: Cape Flattery Limited who shall sell the 1A Vessel, Good Future International Holdings Limited who shall sell the 1B Vessel, Riley Shipping (BVI) Limited who shall sell the 1C Vessel, Quincy Shipping (BVI) Limited who shall sell the 1D Vessel and Kia Shipping (BVI) Limited who shall sell the 1E Vessel, each an indirect wholly-owned subsidiary of the Company.
- Assets to be sold:
- 1A Vessel: A 2004 built handysize dry bulk carrier constructed in Japan of 28,433dwt, named “Cape Flattery”. The flag of the vessel is presently Hong Kong and the place of registration Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.
- 1B Vessel: A 2004 built handysize dry bulk carrier constructed in Japan of 31,894dwt, named “Cook Strait”. The flag of the vessel is presently Hong Kong and the place of registration Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.
- 1C Vessel: A 2004 built handysize dry bulk carrier constructed in Japan of 32,754dwt, named “Sun Ruby”. The flag of the vessel is presently Hong Kong and the place of registration Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.
- 1D Vessel: A 2003 built handysize dry bulk carrier constructed in Japan of 32,751dwt, named “Black Forest”. The flag of the vessel is presently Hong Kong and the place of registration Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai.
- 1E Vessel: A 2002 built handysize dry bulk carrier constructed in Japan of 28,483dwt, named “Mount Travers”. The flag of the vessel is presently Hong Kong and the place of registration 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 profit attributable to the Five Vessels for the financial year ended 31 December 2004 was US\$14,194,614 (approximately HK\$110,717,989). There is no taxation on the net profit attributable to the Five Vessels.

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## LETTER FROM THE BOARD OF DIRECTORS

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Revenue attributable to the Five Vessels:	The revenue attributable to the Five Vessels for the financial year ended 31 December 2004 was US\$22,001,649 (approximately HK\$171,612,862).
Value of the Five Vessels:	The carrying value of the Five Vessels in the Company's accounts as at 31 August 2005 was US\$96,636,482 (approximately HK\$753,764,560).
Consideration:	<p>US\$100,000,000 (approximately HK\$780,000,000), 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.</p> <p>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.</p>
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 1 MOA.
Completion:	Pursuant to the 1 MOA, the latest date for completion was 30 September 2005 unless the parties otherwise agreed. The completion actually took place on 23 August 2005 which was the commencement date of the bareboat charterparties described below.
Intended use of proceeds:	The intended application of the sale proceeds will include the repayment of bank borrowings on the Five Vessels (51% or US\$51,000,000, approximately HK\$397,800,000) and the prepayment of other bank borrowings (49% or US\$49,000,000, approximately HK\$382,200,000), the sum of which included US\$12,800,000 (approximately HK\$99,840,000) being the current portion of these long-term bank borrowings.

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## LETTER FROM THE BOARD OF DIRECTORS

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### THE BAREBOAT CHARTERPARTIES

Date of bareboat charterparties: 18 August 2005 (with charters commencing on 23 August 2005)

Parties: Owners: The 1A Purchaser chartered out the 1A Vessel, the 1B Purchaser chartered out the 1B Vessel, the 1C Purchaser chartered out the 1C Vessel, the 1D Purchaser chartered out the 1D Vessel and 1E Purchaser chartered out the 1E 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 is 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.1) Limited chartered in the 1A Vessel, Pacific Basin Chartering (No.2) Limited chartered in the 1B Vessel, Pacific Basin Chartering (No.3) Limited chartered in the 1C Vessel, Pacific Basin Chartering (No.4) Limited chartered in the 1D Vessel and Pacific Basin Chartering (No.5) Limited chartered in the 1E Vessel, each an indirect wholly-owned subsidiary of the Company.

Assets to be chartered in: The Five Vessels.

The new owners of the Five Vessels do not have the right to change the flag, name or registration of the vessels.

Guarantee: 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 under the bareboat charterparties.

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## LETTER FROM THE BOARD OF DIRECTORS

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Period and payments under the bareboat charterparties:

The Bareboat Charterers shall pay the Purchasers approximately US\$2,806,000 (approximately HK\$21,886,800) in charter hire payments quarterly during the period of the bareboat charterparties which is for a fixed period of ten years. Such payments shall be satisfied from the freight and charterhire revenues generated by the Group.

The bareboat charter rates were determined after arms length negotiation, on normal commercial terms, and by reference to the consideration paid by the Purchasers for the Five Vessels. The bareboat charter rate is equivalent to the payment of principal and interest.

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 month 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 1 MOA) less the principal repaid through the bareboat charter up to until the date the purchase option is exercised. Although the 1 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 as schedule to the 1 MOA. The aggregate purchase option price for the Five Vessels at the end of the 10 year bareboat chartparties is US\$36,500,000 (approximately HK\$284,700,000) (which is the sales consideration minus the principal repaid during the 10 year charter period) plus 35% (the same mark-up will apply if the option is exercised before the expiry of the charterparty) 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 Company will comply with the relevant requirements under the Listing Rules prevailing if it exercises any of the purchase options.

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## LETTER FROM THE BOARD OF DIRECTORS

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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.

Accounting treatment: 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 long-term liabilities 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).

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\$2,806,000 (equivalent to HK\$21,886,800) 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”.

Other terms: Other terms include the trading limitations, i.e. geographical limits outside which the 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.

### **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 net gain on the disposal of the Five Vessels.

The intended application of the sale proceeds will include the repayment of bank borrowings on the Five Vessels (51%) and the prepayment of other bank borrowings (49%), the sum of which included US\$12,800,000 (approximately HK\$99,840,000) being the current portion of these long-term bank borrowings. The Company’s long-term liabilities will remain unchanged as bank borrowings (US\$51,000,000, approximately HK\$397,800,000) secured on the Five Vessels and other bank borrowings (US\$49,000,000, equivalent to HK\$382,200,000)

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## LETTER FROM THE BOARD OF DIRECTORS

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which have been repaid out of the entire sale proceeds are replaced by finance lease obligations of an equivalent amount. US\$4,600,000 (approximately HK\$35,880,000) of which represents the current portion of these lease obligations.

There is not expected to be any material impact on the Company's results of operations upon entering into the 1 MOA and the charterparties for the Five Vessels or by adopting finance lease accounting as compared with immediately prior to the entering of the 1 MOA and the 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 HKAS 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 owned fleet.

Furthermore, the transaction outlined above enables the Company to repay bank borrowings on the Five Vessels (US\$51,000,000, approximately HK\$397,800,000) and the prepayment of other bank borrowings (US\$49,000,000, approximately HK\$382,200,000) and to retain commercial and operational control over the Five Vessels. The prepayment of other bank borrowings which are held under revolving facilities, results in an increase to such undrawn facilities of US\$49,000,000 (approximately HK\$382,200,000) 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 1 MOA and the 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.

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## LETTER FROM THE BOARD OF DIRECTORS

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### ACQUISITION AND SALE AND TIME CHARTER BACK OF ANOTHER SIX VESSELS

#### INTRODUCTION

On 31 August 2005, the Directors announced that:

- (1) On 24 August 2005, Lake Joy Limited, an indirect wholly-owned subsidiary of the Company entered into the 2A MOA with Solar Oceania Corp., to acquire from it Solar Oceania as described herein for a consideration of US\$18,500,000 (approximately HK\$144,300,000); and
- (2) On 24 August 2005, Labrador Shipping (BVI) Limited, an indirect wholly-owned subsidiary of the Company, entered into the 3A MOA with Monarch Maritime S.A. to sell to it Cape Jaffa for a consideration of US\$17,000,000 (approximately HK\$132,600,000).

The ultimate beneficial owner of Solar Oceania Corp. is the same as that of Monarch Maritime S.A.

The transactions contemplated under the 2A MOA and the 3A MOA are not discloseable individually. The requirement for the disclosure of the transactions under the 2A MOA and the 3A MOA arises from the aggregation of each of these transactions with earlier transactions of a similar nature outlined as follows:

- (i) The ultimate beneficial owner of Solar Oceania Corp. is the same as that of Dionysus Maritime S.A. from whom the Company purchased Pitt Island on 16 December 2004 for a consideration of US\$18,500,000 (approximately HK\$144,300,000). Accordingly, the purchase contemplated under the 2A MOA, only when aggregated with this previously non-discloseable transaction, the 2B MOA, constitutes a discloseable transaction of the Company under the Listing Rules; and
- (ii) The ultimate beneficial owner of Monarch Maritime S.A. is the same as that of Citrus Maritime S.A. to whom the Company sold Port Alice on 18 March 2005 for a consideration of US\$23,500,000 (approximately HK\$183,300,000). Accordingly, the sale contemplated under the 3A MOA, only when aggregated with this previously non-discloseable transaction, the 3B MOA, constitutes a discloseable transaction of the Company under the Listing Rules.

Simultaneously with the signing of the 3A MOA, Pacific Basin Chartering Limited, a wholly-owned subsidiary of the Company, entered into a time charterparty agreement with Monarch Maritime S.A. to charter Cape Jaffa back into the Company's chartered fleet at fixed charter rates for a fixed period of five years and, in the Company's option, a further two additional periods of one year each.

The time charter back of Cape Jaffa does not constitute a discloseable transaction of the Company under the Listing Rules.

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## LETTER FROM THE BOARD OF DIRECTORS

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There is no relationship between the 2A MOA and the 3A MOA other than that they were signed simultaneously and that the ultimate beneficial owner of both counterparties is the same.

Simultaneously with the signing of the 3B MOA, Pacific Basin Chartering Limited, a wholly-owned subsidiary of the Company, entered into a time charterparty agreement with Citrus Maritime S.A. to charter Port Alice back into the Company's chartered fleet at fixed charter rates for a fixed period of five years and, in the Company's option, a further two additional periods of one year each.

The time charter back of Port Alice does not constitute a discloseable transaction of the Company under the Listing Rules.

- (3) On 25 August 2005, an indirect wholly-owned subsidiary of the Company entered into the 4A MOA with Glory Ocean Shipping S.A. to sell to it Port Angeles as described herein for a consideration of US\$22,500,000 (approximately HK\$175,500,000).

Glory Ocean Shipping S.A. is the same purchaser with whom the Company, entered into a previously non-discloseable transaction to sell Xiamen Sky for a consideration of US\$21,750,000 (approximately HK\$169,650,000) on 28 April 2005. Accordingly, the transaction contemplated under the 4A MOA, only when aggregated with this sale, the 4B MOA, constitutes a discloseable transaction of the Company under the Listing Rules and is required to be disclosed by way of this circular.

Simultaneously with the signing of the 4A MOA, Pacific Basin Chartering Limited, a wholly-owned subsidiary of the Company, entered into a time charterparty agreement with Glory Ocean Shipping S.A. to charter Port Angeles back into the Company's chartered fleet at fixed charter rates for a fixed period of five years and in the Company's option, two additional periods of one year each.

The time charter back of Port Angeles does not constitute a discloseable transaction of the Company under the Listing Rules.

Simultaneously with the signing of the 4B MOA, Pacific Basin Chartering Limited, a wholly-owned subsidiary of the Company, entered into a time charterparty agreement with Glory Ocean Shipping S.A. to charter Xiamen Sky back into the Company's chartered fleet at fixed charter rates for a fixed period of five years and in the Company's option, two additional periods of one year each.

The time charter back of Xiamen Sky does not constitute a discloseable transaction of the Company under the Listing Rules.

The transactions contemplated under the MOAs described in this circular, constitute discloseable transactions of the Company under the Listing Rules. This document constitutes the circular which the Company is required to send to you pursuant to the Listing Rules.



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## LETTER FROM THE BOARD OF DIRECTORS

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### (2A) THE SOLAR OCEANIA ACQUISITION

#### THE 2A MOA

- Date: 24 August 2005
- Parties: Purchaser: Lake Joy Limited, an indirect wholly-owned subsidiary of the Company.
- Seller: Solar Oceania Corp., which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, together with its ultimate beneficial owner, are third parties 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 Solar Oceania Corp. is the owning of Solar Oceania and the principal business activity of the ultimate beneficial owner of Solar Oceania Corp. is the owning and operating of shipping vessels.
- Asset to be acquired: A 1996 built handysize dry bulk carrier constructed in Japan of approximately 28,251dwt, named "Solar Oceania". The flag of Solar Oceania is presently Liberia and the place of registration is Monrovia. The Classification Society of the vessel is Nippon Kaiji Kyokai. The Directors intend to change the name of Solar Oceania to "Lake Joy" and to change the flag and place of registration of the vessel to Hong Kong for the vessel to be operated by the Company from time of delivery.
- The Company, having made all reasonable enquiry, does not have access to information regarding the revenue or the profits before and after tax of Solar Oceania for the years ended 31 December 2002, 2003 and 2004.
- Consideration: US\$18,500,000 (approximately HK\$144,300,000), which was determined by reference to market intelligence the Company has gathered from shipbrokers, the consideration receivable for Cape Jaffa and also the difference between the consideration payable for Solar Oceania and that receivable for Cape Jaffa. Despite the fact that there is no relationship between the 2A MOA and the 3A MOA, these transactions were assessed by the Company on the basis of the net cash outflow of US\$1,500,000 (approximately HK\$11,700,000) for these two transactions. No third party valuation has been performed on Solar Oceania. The value of Solar Oceania in the books of the Company will be recorded as the consideration of US\$18,500,000 (approximately HK\$144,300,000).

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The Directors believe that such consideration, which was determined after arm's length negotiation, on normal commercial terms and taking into account the terms of the 3A MOA, is fair and reasonable so far as the Company and the Shareholders are concerned.

It is intended that payment of the purchase price will be satisfied in cash funded from internal resources (61%) and from the consideration receivable for Cape Jaffa (39%).

Payment terms: The consideration for the acquisition of Solar Oceania shall be payable as follows:

- no more than 10% of the purchase price was paid at the time of the signing of the 2A MOA; and
- the balance of the purchase price shall be paid in full on delivery of Solar Oceania.

Completion: Pursuant to the 2A MOA, the latest date for completion is 31 October 2005 unless the parties otherwise agree. The Directors currently expect that completion and delivery of Solar Oceania will take place during the second half of October 2005. The Company will make a further announcement if completion does not take place by 31 October 2005.

Aggregation: The ultimate beneficial owner of Solar Oceania Corp. is the same as that of Dionysus Maritime S.A. from whom the Company purchased Pitt Island on 16 December 2004 (the "Pitt Island Acquisition"). The purchase contemplated under the 2A MOA, only when aggregated with the Pitt Island Acquisition, constitutes a discloseable transaction of the Company under the Listing Rules. Further disclosure in respect of the 2B MOA is set out under the heading "The Pitt Island Acquisition" below.

### REASONS FOR THE SOLAR OCEANIA ACQUISITION

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, Pacific Basin seeks to offer its customers a strong, reliable service with a high degree of scheduling flexibility whilst maintaining the Company's operational efficiency.

The acquisition of Solar Oceania outlined above is consistent with this strategy, as the Company has expanded its own fleet, and in line with current customer requirements. The overall result of this transaction, together with the disposal of Cape Jaffa, is that for a net

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## LETTER FROM THE BOARD OF DIRECTORS

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cash outflow of US\$1,500,000 (approximately HK\$11,700,000), being the difference between the consideration payable for Solar Oceania and that receivable for Cape Jaffa, the Company has secured an additional vessel for its fleet, giving an additional 360 revenue days per year.

### **Financial effects of the acquisition**

Following the delivery of Solar Oceania, the Group's fixed assets will increase by the amount of the consideration (US\$18,500,000 (approximately HK\$144,300,000)). Current assets will decrease by the amount of the purchase price, being US\$18,500,000 (approximately HK\$144,300,000), funded from internal resources. As such, there will be no effect on the liabilities of the Company. Upon delivery of Solar Oceania, the Group's vessel revenue days will increase by an expected 360 days per year and is expected to enhance earnings accordingly. The Company's profit and loss account will be charged with the cost of ownership, comprising operational expenses, depreciation, interest and directly attributable overheads.

The Directors believe that the terms of the 2A MOA were, at the time when the 2A MOA was signed, on normal commercial terms and fair and reasonable so far as the Company and the Shareholders were concerned and were in the interests of the Company and the Shareholders as a whole.

### **(2B) THE PITT ISLAND ACQUISITION**

#### **THE 2B MOA**

Date:	16 December 2004
Parties:	Purchaser: Pitt Island Limited, a wholly-owned subsidiary of the Company.
	Seller: Dionysus Maritime S.A., which at the date of the 2B MOA, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, together with its ultimate beneficial owner, were third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company. As far as the Directors were aware, having made all reasonable enquiry, the principal business activity of Dionysus Maritime S.A. was the owning of Pitt Island and the principal business activity of the ultimate beneficial owner of Dionysus Maritime S.A. was the owning and operating of shipping vessels.
Asset acquired:	A 1997 built handysize dry bulk carrier constructed in Japan of approximately 28,611dwt, named "Pitt Island". The flag of Pitt Island is presently Hong Kong and the place of registration is Hong Kong. The Classification Society is Nippon Kaiji Kyokai.

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The Company, having made all reasonable enquiry at the time of acquisition, did not have access to information regarding the revenue or the profits before and after tax of Pitt Island for the years ended 31 December 2002, 2003 and 2004.

Consideration: US\$18,500,000 (approximately HK\$144,300,000), which was determined by reference to market intelligence the Company had gathered from shipbrokers and its own analysis of recently concluded sale and purchase transactions of vessels of comparable size and year of build in the market, and after arm's length negotiation between parties. However, as is commonly the case in the dry bulk carrier market, there had not been any recently published sales by third party vendors of vessels of the exact size of Pitt Island from which to make a direct comparison. No third party valuation was performed on Pitt Island. The value of Pitt Island in the books of the Company is recorded as the consideration of US\$18,500,000 (approximately HK\$144,300,000).

At the time of the acquisition the Directors believed that such consideration, which was determined after arm's length negotiation and on normal commercial terms, was fair and reasonable so far as the Company and the Shareholders were concerned.

Payment of the purchase price was funded by bank borrowings (60%) (91% long term, 9% current) and cash from internal resources (40%).

Payment terms: The consideration for the acquisition of Pitt Island was payable as follows:

- 10% of the purchase price was paid at the time of the signing of the 2B MOA; and
- the balance of the purchase price was paid in full on delivery of Pitt Island to the Company in January 2005.

Completion: Pitt Island was delivered to the Company on 11 January 2005.

### REASONS FOR THE PITT ISLAND ACQUISITION

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, Pacific Basin seeks to offer its customers a strong, reliable service

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## LETTER FROM THE BOARD OF DIRECTORS

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with a high degree of scheduling flexibility whilst maintaining the Company's operational efficiency. The transaction outlined above is consistent with this strategy as the Company has expanded its own fleet and in line with current customer requirements.

### **Financial effects of the acquisition**

Following the delivery of Pitt Island, the Group's fixed assets will increase by the amount of the consideration (US\$18,500,000 (approximately HK\$144,300,000)). Current assets will decrease by the amount of the purchase price being US\$7,400,000 (approximately HK\$57,720,000) funded from internal resources, (40% of the amount of the consideration). Long-term liabilities will increase by the amount of the purchase price funded from new bank borrowings of US\$10,100,000 (approximately HK\$78,780,000) less the amount of bank borrowings falling due within one year, which will increase current liabilities by US\$1,000,000 (approximately HK\$7,800,000). Upon delivery of Pitt Island, the Group's vessel revenue days will increase by 360 days per year and is expected to enhance earnings accordingly. The Company's profit and loss account will be charged with the cost of ownership, comprising operational expenses, depreciation, interest and directly attributable overheads.

The Directors believe that the terms of the 2B MOA were, at the time when the 2B MOA was signed, on normal commercial terms and fair and reasonable so far as the Company and the Shareholders were concerned and were in the interests of the Company and the Shareholders as a whole.

### **(3A) THE CAPE JAFFA DISPOSAL**

#### **THE 3A MOA**

Date: 24 August 2005

Parties: Purchaser: Monarch Maritime S.A., which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, together with its ultimate beneficial owner, are third parties 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 Monarch Maritime S.A. is the owning of Cape Jaffa and the principal business activity of the ultimate beneficial owner of Monarch Maritime S.A. is the owning and operating of shipping vessels.

The ultimate beneficial owner of Monarch Maritime S.A. is the same as that of Solar Oceania Corp.

Seller: Labrador Shipping (BVI) Limited, an indirect wholly-owned subsidiary of the Company.

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- Asset to be sold: A 2001 built handysize dry bulk carrier constructed in Japan of approximately 28,470dwt, named "Cape Jaffa". The flag of Cape Jaffa is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of the vessel is Nippon Kaiji Kyokai. Cape Jaffa was acquired by the Company as a newbuilding vessel from a party unrelated to those referred to in this circular in September 2001.
- Net Profits attributable to Cape Jaffa: The net profit attributable to Cape Jaffa for the years ended 31 December 2003 and 2004 was US\$1,581,015 and US\$3,696,095 (approximately HK\$12,331,917 and HK\$28,829,541) respectively. There is no taxation on the net profit attributable to Cape Jaffa.
- Revenue attributable to Cape Jaffa: The revenue attributable to Cape Jaffa for the years ended 31 December 2003 and 2004 was US\$3,580,395 and US\$6,412,751 (approximately HK\$27,927,081 and HK\$50,019,458) respectively.
- Carrying value of Cape Jaffa: Approximately US\$13,955,000 (approximately HK\$108,849,000) as at 24 August 2005.
- Consideration: US\$17,000,000 (approximately HK\$132,600,000), which was determined by reference to market intelligence the Company has gathered from ship brokers, other sale and charter back transactions entered into by the Company with different and independent counterparties including the sale and bareboat charter back of the Five Vessels, the consideration paid for Solar Oceania and also the difference between the consideration payable for Solar Oceania and that receivable for Cape Jaffa. Despite the fact that there is no relationship between the 2A MOA and the 3A MOA, these transactions were assessed by the Company on the basis of the net cash outflow of US\$1,500,000 (approximately HK\$11,700,000) for these two transactions. No third party valuation has been performed on Cape Jaffa.
- The Directors believe that such consideration, which was determined after arm's length negotiation, on normal commercial terms and taking into account the terms of the 2A MOA, is fair and reasonable so far as the Company and the Shareholders are concerned.
- Payment terms: The consideration for the sale of Cape Jaffa shall be receivable as follows:
- no more than 10% of the purchase price was received at the time of the signing of the 3A MOA; and

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- the balance of the purchase price shall be paid in full on delivery of Cape Jaffa. The delivery date must not be later than 31 October 2005 unless the parties otherwise agree.

**Completion:** Pursuant to the 3A MOA, the latest date for completion is 31 October 2005 unless the parties otherwise agree. The Directors currently expect that completion and delivery of Cape Jaffa will take place during the second half of October 2005. Pacific Basin will make a further announcement if completion does not take place by 31 October 2005.

**Expected gain:** The estimated gain that is expected to accrue to the consolidated income statement of the Company in the financial year ending 31 December 2005 on the disposal of Cape Jaffa is US\$3,045,000 (approximately HK\$23,751,000) which is calculated as the difference between the sale price (US\$17,000,000, approximately HK\$132,600,000) and the approximate carrying value of Cape Jaffa (US\$13,955,000, approximately HK\$108,849,000) in the Company's accounts as at 24 August 2005.

**Application of sale proceeds:** The intended application of the sale proceeds is the repayment of bank borrowings (58%) which are wholly classified as non-current liabilities and to satisfy part of the consideration for Solar Oceania (42%).

**Aggregation:** The ultimate beneficial owner of Monarch Maritime S.A. is the same as that of Citrus Maritime S.A. to whom the Company sold Port Alice on 18 March 2005 (the "Port Alice Disposal"). The sale contemplated under the 3A MOA, only when aggregated with the Port Alice Disposal constitutes a discloseable transaction of the Company under the Listing Rules. Further disclosure in respect of the Port Alice Disposal is set out under the heading "The Port Alice Disposal" below.

### **The time charter back of Cape Jaffa**

Simultaneously, Pacific Basin Chartering Limited, a wholly-owned subsidiary of the Company has entered into a time charterparty agreement with Monarch Maritime S.A. to charter Cape Jaffa back into the Company's chartered fleet at fixed charter rates for a fixed period of five years from 31 October 2005, or such earlier time if Cape Jaffa is delivered before this date and in the Company's option, an additional two periods of one year each. There is no early termination clause. The time charter rates were determined after arm's length negotiation, on normal commercial terms, by reference to other sale and charter back transactions entered into by the Company and by reference to the consideration payable for Solar Oceania and that receivable for Cape Jaffa.

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In addition, under the time charterparty, the Company has the option (granted without payment of any premium and non transferable) to purchase Cape Jaffa at any time after the end of the third year of the time charterparty at a pre-determined price. The purchase option may be exercised by the Company at anytime after the end of the third year until the end of the charterparty (which includes the two optional charter periods if they are exercised). The purchase option price was agreed on normal commercial terms by reference to other sale and charter back transactions entered into by the Company with different and independent counterparties. The purchase option price will be reduced proportionally during each year subsequent to the end of the third year of the time charterparty. The purchase option price and time charter rates are fixed at the time of signing of the time charterparty.

The time charterparty agreement is a separate agreement to the 3A MOA. The agreements are not interconditional, however, they are signed simultaneously. The simultaneous transaction to charter Cape Jaffa back will be classified as an operating lease in accordance with the Hong Kong Accounting Standard No. 17 “Leases”

The time charterparty does not constitute a discloseable transaction of the Company under the Listing Rules.

Pacific Basin will comply with the relevant requirements under the Listing Rules prevailing if it exercises the purchase option. Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of the purchase option; or (2) the Company notifying Monarch Maritime S.A. that the purchase option will not be exercised.

### **REASONS FOR THE CAPE JAFFA DISPOSAL AND TIME CHARTER BACK**

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, Pacific Basin seeks to offer its customers a strong, reliable service with a high degree of scheduling flexibility whilst maintaining the Company’s operational efficiency.

The sale and time charter back of Cape Jaffa outlined above are consistent with this strategy and in line with current customer requirements as the sale and charter back of the Cape Jaffa allows the Company to maintain operational control and profitability of the vessel, as the revenue days per annum are unchanged, whilst releasing cash which can later be used to expand the owned fleet. The overall result of this transaction, together with the acquisition of Solar Oceania, is that for a net cash outflow of US\$1,500,000 (approximately HK\$11,700,000), being the difference between the consideration payable for Solar Oceania and that receivable for Cape Jaffa, the Company has secured an additional vessel for its fleet, giving an additional 360 revenue days per year.

The effect of the sale and time charter back of Cape Jaffa is to retain the operational control and profitability of Cape Jaffa while releasing cash which can later be used to expand the owned fleet.



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### Financial effects of the sale and time charter back

Following the delivery of Cape Jaffa, the Group's fixed assets will decrease by the carrying value of Cape Jaffa of approximately US\$13,955,000 (approximately HK\$108,849,000) in the Group's accounts at the date of disposal. Long-term liabilities will decrease by the amount of bank borrowings repaid of approximately US\$9,800,000 (approximately HK\$76,440,000). The simultaneous transaction to charter Cape Jaffa back will be classified as an operating lease with the charter-hire payments to be accounted for as operating lease expenses during the charter period in accordance with the Hong Kong Accounting Standard No. 17 "Leases".

The sale and charter back of Cape Jaffa will not have any effect upon the number of revenue days nor have a significant effect upon the earnings of the Company, whilst direct operating costs (including depreciation costs) and servicing costs of the financing of Cape Jaffa will be replaced by the charter-hire payments during the charter period.

The Directors believe that the terms of the sale and time charter back of Cape Jaffa are on normal commercial terms and 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.

### (3B) THE PORT ALICE DISPOSAL

#### THE 3B MOA

Date: 18 March 2005

Parties: Purchaser: Citrus Maritime S.A., which at the date of the 3B MOA, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, together with its ultimate beneficial owner, were third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company. As far as the Directors were aware, having made all reasonable enquiry, the principal business activity of Citrus Maritime S.A. is the owning of Port Alice and the principal business activity of the ultimate beneficial owner of Citrus Maritime S.A. was the owning and operating of shipping vessels.

Seller: Port Alice Limited, a wholly-owned subsidiary of the Company.

Asset sold: A newbuilding handysize dry bulk carrier of 31,871dwt, named "Port Alice". Port Alice was constructed by a shipyard in Japan. The flag of Port Alice is currently Hong Kong and the place of registration is currently Hong Kong.

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## LETTER FROM THE BOARD OF DIRECTORS

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Port Alice was purchased at a consideration of US\$22,000,000 (approximately HK\$171,600,000) from a party unrelated to those referred to in this circular. The purchase of Port Alice was disclosed by the Company in its prospectus dated 30 June 2004 at the time of the initial public offering. Port Alice was delivered to Port Alice Limited and immediately thereafter to Citrus Maritime S.A. on 28 June 2005.

Net Profits attributable to Port Alice:	There is no net profit attributable to Port Alice.
Revenue attributable to Port Alice:	There is no revenue attributable to Port Alice.
Consideration:	<p>US\$23,500,000 (approximately HK\$183,300,000), which was determined by reference to market intelligence the Company had gathered from shipbrokers and its own analysis of recently concluded sale and purchase transactions of newbuilding vessels of comparable size and year of build in the market, and after arm's length negotiation between parties. However, as is commonly the case in the dry bulk carrier market, there had not been any recently published sales by third party vendors of newbuilding vessels of the exact size of Port Alice from which to make a direct comparison. No third party valuation was performed on Port Alice.</p> <p>At the time of the sale the Directors believed that such consideration, which was determined after arm's length negotiation and on normal commercial terms, was fair and reasonable so far as the Company and the Shareholders were concerned.</p>
Payment terms:	<p>The consideration for the sale of Port Alice was receivable as follows:</p> <ul style="list-style-type: none"><li>● 10% of the purchase price was received at the time of the signing of the 3B MOA; and</li><li>● the balance of the purchase price was received in full on delivery of Port Alice in June 2005.</li></ul>
Completion:	Port Alice was delivered to Citrus Maritime S.A. on 28 June 2005.

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Gain:	The gain that has been accrued to the consolidated income statement of the Company in the financial year ending 31 December 2005 on the disposal of Port Alice is US\$1,270,000 (approximately HK\$9,906,000) which was calculated as the difference between the sale price (US\$23,500,000, approximately HK\$183,300,000) and the carrying value of Port Alice (US\$22,230,000, approximately HK\$173,394,000) in the Company's accounts as at the date of disposal.
Application of sale proceeds:	The sale proceeds were entirely applied in the repayment and prepayment of non-current long-term bank borrowings.

### **The time charter back of Port Alice**

Simultaneously, Pacific Basin Chartering Limited, a wholly-owned subsidiary of the Company entered into a time charterparty agreement with Citrus Maritime S.A. to charter Port Alice back into the Company's chartered fleet at fixed charter rates for a fixed period of five years from 28 June 2005 and in the Company's option, an additional two periods of one year each. There is no early termination clause.

The time charter rates were determined after arm's length negotiation, on normal commercial terms and by reference to other sale and charter back transactions entered into by the Company.

In addition, under the time charterparty, the Company has the option (granted without payment of any premium and non transferable) to purchase Port Alice at any time after the end of the third year of the time charterparty at a pre-determined price. The purchase option may be exercised by the Company at any time after the end of the third year until the end of the charterparty (which includes the two optional charter periods if they are exercised). The purchase option price was agreed on normal commercial terms by reference to other sale and charter back transactions entered into by the Company with different and independent counterparties. The purchase option price will be reduced proportionally during each year subsequent to the end of the third year of the time charterparty. The purchase option price and time charter rates are fixed at the time of signing of the time charterparty.

The time charterparty agreement is a separate agreement to the 3B MOA. The agreements are not interconditional, however, they were signed simultaneously. The simultaneous transaction to charter Port Alice back will be classified as an operating lease in accordance with the Hong Kong Accounting Standard No. 17 "Leases".

The time charterparty does not constitute a discloseable transaction of the Company under the Listing Rules.

Pacific Basin will comply with the relevant requirements under the Listing Rules prevailing if it exercises the purchase option. Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of the purchase option; or (2) the Company notifying Citrus Maritime S.A. that the purchase option will not be exercised.

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## LETTER FROM THE BOARD OF DIRECTORS

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### REASONS FOR THE PORT ALICE DISPOSAL AND TIME CHARTER BACK

The effect of the sale and time charter back of Port Alice is to retain the operational control and profitability of Port Alice while releasing cash which can later be used to expand the owned fleet.

#### Financial effects of sale and time charter back

Following the delivery of Port Alice, the Group's fixed assets decreased by the carrying value of Port Alice in the Group's accounts of approximately US\$22,230,000 (approximately HK\$173,394,000) at the date of disposal, as a vessel under construction is recorded by the Company as a fixed asset. Non-current long-term liabilities decreased by the amount of bank borrowings prepaid (US\$23,500,000, approximately HK\$183,300,000). The simultaneous transaction to charter Port Alice back was classified as an operating lease with the charter-hire payments to be accounted for as operating lease expenses during the charter period in accordance with the Hong Kong Accounting Standard No. 17 "Leases".

The sale and charter back of Port Alice will not have any effect upon the number of revenue days nor have a significant effect upon the earnings of the Company, whilst direct operating costs (including depreciation costs) and servicing costs of the financing of Port Alice are replaced by the charter-hire payments during the charter period.

The Directors believe that the terms of the Port Alice Disposal and time charter back were, at the time when the 3B MOA was signed, on normal commercial terms and fair and reasonable so far as the Company and the Shareholders were concerned and were in the interests of the Company and the Shareholders as a whole.

### (4A) THE PORT ANGELES DISPOSAL

#### THE 4A MOA

Date: 25 August 2005

Parties: Purchaser: Glory Ocean Shipping S.A., which, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, together with its ultimate beneficial owner, are third parties 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 Glory Ocean Shipping S.A. is the owning of Port Angeles, and at the date of signing of the 4B MOA, the owning of Xiamen Sky, and the principal business activity of the ultimate beneficial owner of Glory Ocean Shipping S.A. is the owning and operating of shipping vessels.

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## LETTER FROM THE BOARD OF DIRECTORS

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Seller: Port Angeles Limited, a wholly-owned subsidiary of the Company.

Asset to be sold: A newbuilding handysize dry bulk carrier of approximately 28,100dwt to be named "Port Angeles". Port Angeles was acquired by the Company, from a party unrelated to those referred to in this circular, as disclosed in the Company's announcement dated 15 September 2004 for a consideration of US\$21,500,000 (approximately HK\$167,700,000). 30% of the consideration price shall be paid in instalments during the construction phase of Port Angeles and 70% shall be paid no later than 4 banking days prior to delivery. Port Angeles will be constructed by a shipyard in Japan. In the Company's announcement dated 15 September 2004, Port Angeles was expected to be delivered on or before 30 April 2006. However, as a result of mutual agreement between the Company and the shipyard so as to maintain our relationships in Japan, it is now expected to be delivered to Port Angeles Limited and immediately thereafter to Glory Ocean Shipping S.A. by or before 31 August 2007. It is currently expected that it will be registered by Glory Ocean Shipping S.A. under the laws and flag of Hong Kong.

Consideration: US\$22,500,000 (approximately HK\$175,500,000), 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, on normal commercial terms, between the parties. However, as is commonly the case in the dry bulk carrier market, there have not been any recently published sales by third party vendors of newbuilding vessels of the exact size of Port Angeles from which to make a direct comparison. In addition no third party valuation has been performed on Port Angeles.

The Directors believe that the terms of the transaction, which were determined after arms length negotiation, on normal commercial terms, are fair and reasonable so far as the Company and the Shareholders are concerned.

Payment terms: The consideration for the sale of Port Angeles shall be receivable as follows:

- 10% of the purchase price was received at the time of the signing of the 4A MOA; and
- the balance of the purchase price shall be paid in full on delivery of the Port Angeles.

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## LETTER FROM THE BOARD OF DIRECTORS

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- Completion:** Pursuant to the 4A MOA, the latest date for completion is 31 August 2007 unless the parties otherwise agree. The Directors currently expect that completion and delivery of Port Angeles will take place on or before 31 August 2007 in Japan. Pacific Basin will make a further announcement if completion does not take place by 31 August 2007.
- Expected gain:** The estimated net gain that is expected to accrue to the consolidated income statement of the Company in the financial year ending 31 December 2007 on the delivery of Port Angeles is US\$1,000,000 (approximately HK\$7,800,000), which is calculated as the difference between the sale price (US\$22,500,000, approximately HK\$175,500,000) and the aggregate of the carrying value (US\$1,075,000, approximately HK\$8,385,000) in the Company's accounts as at 22 August 2005 and future payment commitments of Port Angeles (US\$20,425,000, approximately HK\$159,315,000) which are payable in 2007.
- Application of sale proceeds:** The intended application of the sale proceeds is the funding of yard payment obligations (89%) and the prepayment of non-current long-term bank borrowings (11%).
- Aggregation:** Glory Ocean Shipping S.A. is the same purchaser to whom the Company sold Xiamen Sky on 28 April 2005 (the "Xiamen Sky Disposal"). The sale contemplated under the 4A MOA, only when aggregated with the Xiamen Sky Disposal, constitutes a discloseable transaction of the Company under the Listing Rules. Further disclosure in respect of the Xiamen Sky Disposal is set out under the heading "The Xiamen Sky Disposal" below.

### **The time charter back of Port Angeles**

Simultaneously, Pacific Basin Chartering Limited, a wholly-owned subsidiary of the Company has entered into a time charterparty agreement with Glory Ocean Shipping S.A. to charter Port Angeles back into the Company's chartered fleet at agreed charter rates for a fixed period of five years from 31 August 2007, or such earlier time if Port Angeles is delivered before this date and, at the Company's election, two additional periods of one year each. There is no early termination clause.

The time charter rates were determined after arm's length negotiation, on normal commercial terms, by reference to other sale and charter back transactions entered into by the Company.

In addition, under the time charterparty, the Company has the option (granted without payment of any premium and non transferable) to purchase Port Angeles at anytime after the end of the third year of the time charterparty at a pre-determined price. The purchase option may be exercised by the Company at anytime after the end of the third year until the end of the charterparty (which includes the two optional charter periods if they are exercised). The

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## LETTER FROM THE BOARD OF DIRECTORS

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purchase option price was agreed on normal commercial terms by reference to other sale and charter back transactions entered into by the Company with different and independent counterparties and the consideration payable for Port Angeles. This price will be reduced proportionally in the event the purchase option is exercised subsequent to the end of the third year of the time charterparty. The purchase option price and time charter rates are fixed at the time of signing of the time charterparty.

The time charterparty agreement is a separate agreement to the 4A MOA. The agreements are not interconditional, however, they are signed simultaneously. The simultaneous transaction to charter Port Angeles back will be classified as an operating lease in accordance with the Hong Kong Accounting Standard No. 17 “Leases”.

The time charterparty does not constitute a discloseable transaction of the Company under the Listing Rules.

Pacific Basin will comply with the relevant requirements under the Listing Rules prevailing if it exercises the purchase option. Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of the purchase option; or (2) the Company notifying Glory Ocean Shipping S.A. that the purchase option will not be exercised.

### **REASONS FOR THE PORT ANGELES DISPOSAL AND TIME CHARTER BACK**

The Company is one of the world’s leading dry bulk shipping companies operating principally in the Asia Pacific region, continuously seeking to meet growing customer demand and deliver sustainable growth and long-term shareholder value. With a large fleet of modern, uniformly-sized vessels, Pacific Basin seeks to offer its customers a strong, reliable service with a high degree of scheduling flexibility whilst maintaining the Company’s operational efficiency. The expected benefit following the completion of the sale and time charter back of Port Angeles outlined above enables the Company to release cash to fund yard payment obligations and the prepayment of bank borrowings, and at the same time enables the Company to retain commercial control over Port Angeles upon delivery in 2007.

#### **Financial effects of the sale and time charter back:**

Following the delivery of Port Angeles which is expected to be in August 2007, the Group’s fixed assets, which is classified as a vessel under construction, will decrease by the carrying value of Port Angeles in the Group’s accounts of US\$21,500,000 (approximately HK\$167,700,000) at the date of disposal. The Group’s liabilities of US\$22,500,000 (approximately HK\$175,500,000) will be reduced by the consideration received from Glory Ocean Shipping S.A. at the time of signing of the 4A MOA and at the time of delivery. The simultaneous transaction to charter Port Angeles back will be classified as an operating lease with the charter-hire payments to be accounted for as operating lease expenses during the charter period, in accordance with Hong Kong Accounting Standard No. 17 “Leases”.

The sale and charter back of Port Angeles will not have any effect upon the number of revenue days nor have a significant effect upon the earnings of the Company, whilst direct operating costs (including depreciation costs) and servicing costs of the financing of Port Angeles will be replaced by the charter-hire payments during the charter period.

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## LETTER FROM THE BOARD OF DIRECTORS

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The Directors believe that the terms of the 4A MOA and time charter back are on normal commercial terms and fair and reasonable so far as the Company and the Shareholders are concerned and are in the interest of the Company and the Shareholders as a whole.

### **(4B) THE XIAMEN SKY DISPOSAL**

#### THE 4B MOA

Date: 28 April 2005

Parties: Purchaser: Glory Ocean Shipping S.A. which at the date of the 4B MOA, to the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, together with its ultimate beneficial owner, were third parties 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 Glory Ocean Shipping S.A was the owning of Xiamen Sky and the principal business activity of the ultimate beneficial owner of Glory Ocean Shipping S.A was the owning and operating of shipping vessels.

Seller: Great Strength Assets Limited, a wholly-owned subsidiary of the Company.

Asset sold: A handymax dry bulk carrier of approximately 53,800dwt, named "Xiamen Sky". Xiamen Sky was constructed by a shipyard in China. Xiamen Sky is currently registered under the laws and flag of Hong Kong.

Xiamen Sky was purchased for a consideration of US\$17,880,000 (approximately HK\$139,464,000) by the Company from a party unrelated to those referred to in this circular. The purchase was disclosed in the Company's prospectus dated 30 June 2004 at the time of the initial public offering. The vessel was delivered to Great Strength Assets Limited on 6 January 2005. Xiamen Sky was delivered to Glory Ocean Shipping S.A. on 27 May 2005.



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## LETTER FROM THE BOARD OF DIRECTORS

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Consideration: US\$21,750,000 (approximately HK\$169,650,000), which was determined by reference to market intelligence the Company had gathered from shipbrokers and its own analysis of recently concluded sale and purchase transactions of vessels of comparable size and year of build in the market, and after arm's length negotiation between parties. However, as is commonly the case in the dry bulk carrier market, there had not been any recently published sales by third party vendors of vessels of the exact size of Xiamen Sky from which to make a direct comparison. No third party valuation was performed on Xiamen Sky.

At the time of the sale the Directors believed that such consideration, which was determined after arm's length negotiation and on normal commercial terms, was fair and reasonable so far as the Company and the Shareholders were concerned.

Payment terms: The consideration for the sale of Xiamen Sky was receivable as follows:

- 10% of the purchase price was received at the time of the signing of the 4B MOA; and
- 90% of the purchase price was received upon delivery of Xiamen Sky in May 2005.

Completion: Xiamen Sky was delivered to Glory Ocean Shipping S.A. on 27 May 2005.

Loss: The net loss that has been accrued to the consolidated income statement of the Company for the financial year ending 31 December 2005 is US\$94,000 (approximately HK\$733,200), which is calculated as the difference between the net sale price (US\$21,525,000, approximately HK\$167,895,000) and the carrying value of the vessel (US\$21,619,000, approximately HK\$168,628,200) at the date of disposal.

Application of sale proceeds: The sale proceeds have been applied on the repayment of bank borrowings (82%) and the prepayment of bank borrowings (18%), which constitutes 7% and 93% of current liabilities and non-current liabilities respectively.

### **The time charter back of Xiamen Sky**

Simultaneously, Pacific Basin Chartering Limited, a wholly-owned subsidiary of the Company has entered into a time charterparty agreement with Glory Ocean Shipping S.A. to charter Xiamen Sky back into the Company's chartered fleet at agreed charter rates for a fixed period of five years from 28 May 2005 and, at the Company's election, two additional periods of one year each. There is no early termination clause.

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## LETTER FROM THE BOARD OF DIRECTORS

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The time charter rates were determined after arms length negotiation, on normal commercial terms, by reference to other sale and charter back transactions entered into by the Company.

In addition, under the time charterparty, the Company has the option (granted without payment of any premium and non transferable) to purchase Xiamen Sky at anytime after the end of the third year of the time charterparty at a pre-determined price. The purchase option may be exercised by the Company at anytime after the end of the third year until the end of the charterparty (which includes the two optional charter periods if they are exercised). The purchase option price was agreed on normal commercial terms by reference to other sale and charter back transactions entered into by the Company with different and independent counterparties and the consideration payable for Xiamen Sky. This price will be reduced proportionally in the event the purchase option is exercised subsequent to the end of the third year of the time charterparty. The purchase option price and time charter rates are fixed at the time of signing of the time charterparty.

The time charterparty is a separate agreement to the 4B MOA. The agreements are not interconditional, however, they were signed simultaneously. The simultaneous transaction to charter Xiamen Sky back will be classified as an operating lease in accordance with the Hong Kong Accounting Standard No. 17 “Leases”.

The time charterparty does not constitute a discloseable transaction of the Company under the Listing Rules.

Pacific Basin will comply with the relevant requirements under the Listing Rules prevailing if it exercises the purchase option. Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of the purchase option; or (2) the Company notifying Glory Ocean Shipping S.A. that the purchase option will not be exercised.

### **REASONS FOR THE XIAMEN SKY DISPOSAL AND TIME CHARTER BACK**

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 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, Pacific Basin seeks to offer its customers a strong, reliable service with a high degree of scheduling flexibility whilst maintaining the Company’s operational efficiency.

The effect of the sale and time charter back of Xiamen Sky was to retain commercial control and profitability of Xiamen Sky while releasing cash which can later be used to expand the Group’s fleet.

### **Financial effects of sale and time charter back**

Following the delivery of Xiamen Sky, the Group’s fixed assets decreased by the carrying value of US\$21,619,000 (approximately HK\$168,628,200) of Xiamen Sky in the Group’s accounts at the date of disposal. Long-term liabilities (93%) (US\$20,000,000, approximately HK\$156,000,000) decreased by the amount of bank borrowings repaid and prepaid less the amount of these bank borrowings falling due within one year, which

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## LETTER FROM THE BOARD OF DIRECTORS

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decreased current liabilities (7% or US\$1,500,000, approximately HK\$11,700,000). The simultaneous transaction to charter Xiamen Sky back was classified as an operating lease with the charter-hire payments to be accounted for as operating lease expenses during the charter period in accordance with the Hong Kong Accounting Standard No. 17 “Leases”.

The sale and charter back of Xiamen Sky will not have any effect upon the number of revenue days nor have a significant effect upon the earnings of the Company, whilst direct operating costs (including depreciation costs) and servicing costs of the financing of Xiamen Sky are replaced by the charter-hire payments during the charter period.

The Directors believe that the terms of the 4B MOA and time charter were, at the time of the signing of the 4B MOA, normal commercial terms and fair and reasonable so far as the Company and the Shareholders were concerned and were in the interest of the Company and the Shareholders as a whole.

The transactions contemplated under the six MOAs constitute discloseable transactions of the Company under the Listing Rules. This document constitutes the circular which the Company is required to send to you pursuant to the Listing Rules.

### **OVERALL IMPACT ON THE GROUP’S ASSETS AND LIABILITIES AND EARNINGS**

Following the completion of the transactions under all the MOAs, the Group’s fixed assets will decrease by US\$42,304,000 (approximately HK\$329,971,000). Long-term liabilities will decrease by US\$152,900,000 (approximately HK\$1,192,620,000), and short term liabilities will decrease by US\$13,300,000 (approximately HK\$103,740,000) will be repayable within one year. The decrease of long-term liabilities is due to the repayment and prepayment of bank borrowings on vessels sold, partly netted off by the draw down of bank borrowings on vessel purchases. Finance lease obligations will be at US\$100,000,000 (approximately HK\$780,000,000), of which US\$4,600,000 (approximately HK\$35,880,000) will be repayable within one year. Cash balances will decrease by US\$18,700,000 (approximately HK\$145,860,000), which is attributable to the consideration on vessel purchases settled out of our internal resources. Cash generated from the above transactions to prepay existing bank facilities amounted to US\$98,900,000 (approximately HK\$771,420,000) which can be reutilised when the Company wishes to expand its own fleet.

In the consolidated profit and loss account, the estimated net gains that are expected to accrue in financial year ending 31 December 2005 and the year ending 31 December 2007 on the disposal of vessels are US\$4,221,000 in aggregate (approximately HK\$32,924,000) and US\$1,000,000 (approximately HK\$7,800,000) respectively. The simultaneous transactions associated with the 3A MOA, the 3B MOA, the 4A MOA and the 4B MOA to time charter the sold vessels back will be classified as operating leases with the charter-hire payments to be accounted for as operating lease expenses during the charter period in accordance with the Hong Kong Accounting Standard No. 17 “Leases”.

The bareboat charter transaction associated with 1 MOA will be accounted for as finance leases in accordance with the Hong Kong Accounting Standard No. 17 “Leases”. The charter-hire payments of approximately US\$2,806,000 (approximately HK\$21,886,800) every

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## LETTER FROM THE BOARD OF DIRECTORS

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quarter 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 addition, the acquisition of Solar Oceania and Pitt Island gives an additional of 720 revenue days per year and is expected to enhance earnings accordingly. The sale and charter back transactions in relation to the Five Vessels, Cape Jaffa, Port Alice, Port Angeles and Xiamen Sky did not and will not have any effect upon the number of revenue days nor have any significant effect upon the earnings of the Company during the charter periods. As a result of the bareboat charter back of the Five Vessels, the Company will continue to be responsible for the technical operation of the vessels and will continue to incur both the direct operating costs (including depreciation costs) and the servicing costs of the financing of the Five Vessels, whilst the charter-hire payments in relation to the charter back of Cape Jaffa, Port Alice, Port Angeles and Xiamen Sky will replace the direct operating costs and the servicing costs of the financing of these vessels.

### **THE FLEET**

All of the vessels in the owned, chartered in and managed fleets are handysize dry bulk carriers and range between approximately 28,000dwt and 32,000dwt, with the exception of two handymax dry bulk carriers, Xiamen Sky and Xiamen Sea (both in the chartered in fleets), which are each 53,800dwt.

As at the date of this circular, the Company has a fleet of 56 vessels (1,674,706dwt), comprising 28 owned vessels (816,027dwt), including Solar Oceania and Pitt Island, 18 chartered-in vessels (575,208dwt), including Cape Jaffa, Port Alice, Xiamen Sky and the Five Vessels, 4 managed vessels (107,171dwt) and 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, including Port Angeles, will enter into the chartered-in fleet (116,200dwt).

All the vessels in the Group's fleet are used in the same manner. There is no distinction between the use of owned, chartered and managed vessels. All of the vessels, with the exception of the two handymax vessels, are employed in the International Handybulk Carriers Pool ("IHC Pool"). The handymax vessels are not included in the IHC Pool as this is a handysize specific pool.

The revenue earned by vessels in the owned and chartered in fleets is classified as freight and charter hire income and that earned by the managed fleet is classified as commission and management fee income, the generated revenue from which is for the account of the ship-owners.

### **NO OTHER RELATIONSHIP BETWEEN VENDORS AND PURCHASERS**

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, save for the relationships disclosed in this circular, there are no other relationships amongst the vendors and purchasers and their ultimate beneficial owners as referred to in this circular and other vendors, purchasers and ship-owners and their

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## LETTER FROM THE BOARD OF DIRECTORS

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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 respective agreements or MOAs.

The transactions contemplated under the six MOAs together with the 1 MOA for the Five Vessels and the bareboat charterback of the Five Vessels constitute discloseable transactions of the Company under the Listing Rules. This document constitutes the circular which the Company is required to send to you pursuant to the Listing Rules.

### **FURTHER INFORMATION**

Your attention is also drawn to the additional information set out in the Appendix to this circular.

Yours faithfully,  
By order of the Board  
**Andrew T. Broomhead**  
*Company Secretary*

## 1. RESPONSIBILITY STATEMENT

This circular includes particulars given in compliance with the Listing Rules for the purpose of giving information with regard to the Company. The Directors collectively and individually accept full responsibility for the accuracy of the information contained in this circular and confirm, having made all reasonable enquiries, that to the best of their knowledge and belief, opinions expressed in this circular have been arrived at after due and careful consideration and there are no other facts the omission of which would make any statement herein misleading.

## 2. SHARE CAPITAL

### Authorised and issued share capital

The authorised and issued share capital of the Company as at the Latest Practicable Date:

<i>Authorised:</i>		US\$
3,600,000,000	shares (Shares of US\$0.10 each)	360,000,000
<i>Issued:</i>		
1,276,060,609	shares (Shares of US\$0.10 each)	127,606,060

All the existing issued Shares rank *pari passu* in all respects including all rights as to dividends, voting and interests in capital.

No part of the share capital or debt securities of the Company are listed on or dealt in any stock exchange other than the Stock Exchange and no application is being made or is currently proposed to be sought for the Shares or debt securities of the Company to be listed or dealt in on any other stock exchange.

## 3. DISCLOSURE OF INTERESTS

### (i) Interests of Directors and chief executive

As at the Latest Practicable Date, the interests and short positions of the Directors and chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any associated corporation (within the meaning of Part XV of the SFO) which: (a) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they are taken or deemed to have under such provisions of the SFO), or (b) were required to be entered in the register kept by the Company pursuant to

section 352 of the SFO, or (c) were required pursuant to the Model Code for Securities Transactions by Directors of Listed Companies were as follows:

**Long positions in the Shares and underlying Shares and debentures of the Company**

Name of Director	Corporate interests	Personal interests	Family interests	Trust & similar interests	Number of underlying Shares under equity derivatives (share options)	Total Share interests	Approximate percentage of issued share capital of the Company
Christopher R Buttery	–	5,626,612	–	18,386,905 <sup>3</sup>	4,800,000 <sup>1</sup>	28,813,517	2.26%
Richard M Hext	–	3,333,333 <sup>2</sup>	–	–	5,000,000 <sup>2</sup>	8,333,333	0.65%
Mark M Harris	6,282,261 <sup>6</sup>	12,121,001	–	–	3,200,000 <sup>1</sup>	21,603,262	1.69%
Paul C Over	–	–	–	23,535,041 <sup>4</sup>	4,800,000 <sup>1</sup>	28,335,041	2.22%
Simon K Y Lee	–	–	–	50,607,220 <sup>5</sup>	–	50,607,220	3.97%

*Notes:*

- (1) On 14 July 2004, each of Christopher Buttery, Mark Harris and Paul Over were granted options to subscribe for 4,800,000 Shares pursuant to the Long Term Incentive Scheme. The subscription price is HK\$2.50 per Share. In relation to each grant of 4,800,000 Share options, 1,600,000 Share options are exercisable from 14 July 2005 to 14 July 2014, another 1,600,000 Share options are exercisable from 14 July 2006 to 14 July 2014 and the remaining 1,600,000 Share options are exercisable from 14 July 2007 to 14 July 2014.

Mr Harris has exercised his options to subscribe for 1,600,000 Shares on 15 September 2005 at the price of HK\$2.50 per Share.

- (2) On 5 April 2005, Mr Hext joined the Company as an executive Director and he was entitled to a grant of 5 million Share options, granted pursuant to the Long Term Incentive Scheme on this date. The subscription price is HK\$3.875 per Share. In relation to the grant of 5,000,000 Share options, 1,000,000 Share options are exercisable for each of the following period (i) from 5 April 2006 to 5 April 2015, (ii) from 5 April 2007 to 14 July 2015, (iii) from 5 April 2008 to 14 July 2015, (iv) from 5 April 2009 to 14 July 2015, and (v) from 5 April 2010 to 14 July 2015.

On 16 June 2005, 3,333,333 Shares in the form of restricted share awards were granted to Mr. Hext pursuant to the Long Term Incentive Scheme. In relation to the 3,333,333 restricted share awards, 666,667 Shares will vest on 5 April 2006, 666,667 Shares will vest on 5 April 2007, 666,667 Shares will be vest on 5 April 2008, 666,666 Shares will vest on 5 April 2009 and 666,666 Shares will vest on 5 April 2010.

- (3) 18,386,905 Shares are owned by Turnwell Limited. Mr Buttery is deemed to be interested in the entire share capital of Turnwell Limited under the SFO as its shares are held by a discretionary trust set up by him and the discretionary objects of which include himself and his family members.

- (4) 23,535,041 Shares are owned by Ansleigh Limited. Mr Over is deemed to be interested in the entire share capital of Ansleigh Limited under the SFO as its shares are held by a discretionary trust set up by him and the discretionary objects of which include himself and his family members.
- (5) 19,935,122 Shares, 1,059,725 Shares, 22,335,373 Shares, 2,277,000 Shares and 5,000,000 Shares are beneficially owned by Asia Distribution Limited, Firelight Investments Limited, Eagle Pacific International Limited, Wellex Investment Limited and Fortress Eagle Investment Limited, respectively. These companies are controlled by discretionary trusts established by Mr Lee, the discretionary objects of which include his family members.
- (6) Dragon Island Shipping Limited owns 6,282,261 Shares in the Company which is controlled by Mr Harris.

**(ii) Interests of Shareholders discloseable pursuant to the SFO**

As at the Latest Practicable Date, the Directors or the chief executive of the Company are not aware that there is any party who had an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO, or, who is, directly or indirectly, interested in 10% or more of the nominal value of any class of share capital carrying rights to vote in all circumstances at general meetings of the Company and of any other member of the Group.

**4. SERVICE CONTRACTS**

As at the Latest Practicable Date, none of the Directors had any service contract with the Company or any of its subsidiaries which is not expiring or determinable by the Group within one year without payment of compensation, other than statutory compensation.

**5. LITIGATION**

As at the Latest Practicable Date, neither the Company nor any of its subsidiaries is engaged in any litigation or arbitration of material importance and no litigation or claim of material importance is known to the Directors to be pending or threatened by or against any member of the Group.

**6. COMPETING INTERESTS**

None of the Directors or their respective associates have a controlling interest in a business which competes either directly or indirectly with the business of the Company.

**7. MISCELLANEOUS**

- (i) The company secretary and the qualified accountant of the Company is Andrew Thomas Broomhead. He is a Fellow of both the Hong Kong Institute of Certified Public Accountants and the Institute of Chartered Accountants in England and Wales.



- (ii) The registered office of the Company is Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda. The head office and principal place of business of the Company is at 7th Floor, Hutchison House, 10 Harcourt Road, Central, Hong Kong.
- (iii) The principal share registrar and transfer office is Butterfield Fund Services (Bermuda) Limited, Rosebank Centre, 11 Bermudiana Road, Pembroke, HM08, Bermuda.
- (iv) The English text of this circular shall prevail over the Chinese text in case of any inconsistency.