
THIS DOCUMENT IS IMPORTANT AND REQUIRES YOUR IMMEDIATE ATTENTION

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

(incorporated in Bermuda with limited liability)

(Stock Code: 2343)

**DISCLOSEABLE TRANSACTION:
ACQUISITION OF VESSEL TO
BE CONSTRUCTED**

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DEFINITIONS

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

“banking days”	means the days on which banks are open in London, Hong Kong, Tokyo, Singapore, Hamburg and New York;
“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;
“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 7 December 2004, 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;
“MOA”	means the legally binding unconditional Memorandum of Agreement dated 22 November 2004 entered into between Cape Knox Limited and Venus Sea Marine, S.A. for the acquisition of the Newbuilding Vessel by Cape Knox Limited;
“Newbuilding Vessel”	means a newbuilding handysize dry bulk carrier of approximately 28,000 dwt, to be named “Cape Knox”. The Newbuilding Vessel will be constructed by a shipyard in Japan and is expected to be delivered by or before 30 November 2006. It is currently expected that it will be registered upon its delivery under the laws and flag of Hong Kong;
“Prospectus”	means the Company’s prospectus dated 30 June 2004;
“Seller”	Venus Sea Marine, S.A.;
“SFO”	means Securities and Futures Ordinance (Chapter 572 of the Laws of Hong Kong);
“Shareholders”	means the shareholders of the Company;

DEFINITIONS

- “Shares” means the ordinary shares issued by the Company, with a nominal value of US\$0.10 each, traded in HK dollars and which are listed on the Stock Exchange;
- “Share Option Scheme” means the share option scheme adopted by the Company pursuant to a resolution passed by the Shareholders at an extraordinary general meeting on 10 June 2004; and
- “Stock Exchange” means The Stock Exchange of Hong Kong Limited.



Pacific Basin Shipping Limited

(incorporated in Bermuda with limited liability)

(Stock Code: 2343)

Executive Directors:

Christopher Richard Buttery
Mark Malcolm Harris
Paul Charles Over

Registered Office:

Clarendon House
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Hamilton HM11
Bermuda

Non-Executive Directors:

Lee Kwok Yin, Simon
James John Dowling
Brian Paul Friedman

Hong Kong Principal Office:

6th Floor, Tai Yau Building
181 Johnston Road
Wanchai
Hong Kong

Independent Non-Executive Directors:

Robert Charles Nicholson
Patrick Blackwell Paul
The Rt. Hon. The Earl of Cromer

10 December 2004

To the Shareholders

Dear Sir or Madam

DISCLOSEABLE TRANSACTION ACQUISITION OF VESSEL TO BE CONSTRUCTED

INTRODUCTION

On 22 November 2004 the Directors announced that an indirect wholly-owned subsidiary of the Company entered into a Memorandum of Agreement with Venus Sea Marine, S.A. to acquire from it the Newbuilding Vessel as described herein for a consideration of US\$21,500,000 (approximately HK\$167,700,000). The ultimate beneficial owner of the Seller is the same as that of the Newbuilding Vessel acquired previously by the Company as announced on 15 September 2004. Principal terms of the MOA are set out below in this circular.

The transaction contemplated under the MOA, only when aggregated with the discloseable transaction announced by the Company on 15 September 2004, constitute a discloseable transaction 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 acquisition of the Newbuilding Vessel.

LETTER FROM THE BOARD OF DIRECTORS

THE MOA

- Date : 22 November 2004
- Parties : Purchaser : Cape Knox Limited, a wholly-owned subsidiary of the Company
- Seller : Venus Sea Marine, 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, the principal business activity of the Seller is the owning of the Newbuilding Vessel and the principal business activity of the ultimate beneficial owner of the Seller is the owning and operating of shipping vessels.
- Asset to be acquired : A newbuilding handysize dry bulk carrier of approximately 28,000 dwt, to be named "Cape Knox". The Newbuilding Vessel will be constructed by a shipyard in Japan and is expected to be delivered by or before 30 November 2006. It is currently expected that it will be registered upon its delivery under the laws and flag of Hong Kong and will be operated by the Company.
- Consideration : US\$21,500,000 (equivalent to HK\$167,700,000), which was determined by reference to market intelligence the Company has gathered from shipbrokers and its own analysis of recently concluded sale and purchase transactions of newbuildings of comparable size and year of build in the market, 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 sales by third party vendors of newbuildings of the exact size of the Newbuilding Vessel from which to make a direct comparison with the exception of the Company's purchase of a newbuilding contract for a sister vessel, to be named "Port Angeles", at the same price, as announced by the Company on 15 September 2004. In addition, no third party valuation has been performed on the Newbuilding Vessel.

The Directors believe that such consideration, which was determined after arm's length negotiation, is fair and reasonable so far as the Company and the Shareholders are concerned.

LETTER FROM THE BOARD OF DIRECTORS

It is intended that payment of the purchase price will be satisfied entirely in cash, 40% of which is expected to be funded from internal resources and 60% from new bank borrowings, which the Company intends to arrange nearer the time of delivery of the Newbuilding Vessel. The Company expects that such bank borrowings could be long term in nature and on similar terms as the Company's existing facilities. Should such financing not be arranged, the entire purchase price of the Newbuilding Vessel could be funded from internal resources. As an alternative, the Company is considering the possibility of a sale and lease-back of the Newbuilding Vessel. Pacific Basin will comply with the relevant disclosure requirements under the Listing Rules prevailing at the time of such a transaction.

- Payment terms : The consideration for the acquisition of the Newbuilding Vessel shall be payable as follows:
- no more than 10% of the purchase price shall be paid between the signing of the MOA and the year ended 31 December 2005; and
 - the balance of the purchase price shall be paid in 2006.
- Completion : Pursuant to the MOA, the latest date for completion is 30 November 2006 unless the parties otherwise agree. The Directors currently expect that completion and delivery of the Newbuilding Vessel will take place before 30 November 2006 in Japan.

REASONS FOR THE TRANSACTION

As stated in the Company's Prospectus, and in previous announcements of this nature, 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 transaction outlined above are consistent with this strategy.

The expected benefit following the successful acquisition of the Newbuilding Vessel is that the Company will have an expanded fleet of modern vessels in line with the above strategy. As, at the date of this circular, the Company has a Handysize fleet of 45 vessels, comprising 33 owned vessels, 7 chartered-in vessels and 5 managed vessels. The Company has also taken delivery of its first Handymax vessel, which is on a five year period charter to a major Chinese shipping group, with a second Handymax vessel due for delivery in January 2005 also on a five year period charter to the same group. Following the signing of the MOA, the Company has increased the number of owned newbuilding vessels on order from four to five, three of which are scheduled to deliver in January, June and August 2005 and two in April and November 2006. Also on order is one newbuilding scheduled to deliver in November 2006, which will join the Company's chartered-in fleet.

LETTER FROM THE BOARD OF DIRECTORS

Following the delivery of the Newbuilding Vessel, the Group's fixed assets will increase by the amount of the consideration. Current assets will decrease by the amount of the purchase price funded from internal resources. Long-term liabilities will increase by the amount of the purchase price funded from new bank borrowings less the amount of the bank borrowings falling due within one year, which will increase current liabilities. Upon delivery of the Newbuilding Vessel, the Group's vessel revenue days will increase by an expected 30 days in 2006 and 360 days in 2007 and is expected to enhance earnings accordingly.

The Directors believe that the terms of the MOA are fair and reasonable so far as the Company and the Shareholders are concerned, and that the acquisition of the Newbuilding Vessel is in the interests of the Company and the Shareholders as a whole.

The transaction contemplated under the MOA, only when aggregated with the discloseable transaction announced by the Company on 15 September 2004, constitute a discloseable transaction 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 acquisition of the Newbuilding Vessel.

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 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:

Authorised: US\$

3,600,000,000 shares (Shares of US\$0.10 each) 360,000,000

Issued:

1,267,010,609 shares (Shares of US\$0.10 each) 126,701,060

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 pursuant to the Model Code for Securities Transactions by Directors of Listed Companies, or (b) were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, 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	—	100,000	—	12,059,623 ²	4,800,000 ¹	16,959,623	1.34%
Mark M Harris	—	—	—	—	4,800,000 ¹	4,800,000	0.38%
Paul C Over	—	—	—	12,059,623 ³	4,800,000 ¹	16,859,623	1.33%
Brian P Friedman	241,195,194 ⁴	—	—	—	—	241,195,194	19.04%
Simon K Y Lee	—	—	—	36,536,997 ⁵	—	36,536,997	2.88%

Notes:

- (1) On 14 July 2004, each of the executive Directors was granted options to subscribe for 4,800,000 Shares pursuant to the Share Option Scheme of the Company. 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.
- (2) 12,059,623 Shares are beneficially owned by Plymouth Shipping Investments Limited, which is wholly owned by Turnwell Limited and Ansleigh Limited in equal shares. 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.
- (3) 12,059,623 Shares are beneficially owned by Plymouth Shipping Investments Limited, which is wholly owned by Turnwell Limited and Ansleigh Limited in equal shares. 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.
- (4) Mr Friedman is a managing member of FS Private Investments LLC, which is the manager of each of Furman Selz Investors II L.P., FS Employee Investors LLC and FS Parallel Fund LP, being the members of IDB Carriers (BVI) Limited. Under these arrangements, Mr Friedman is entitled, as a managing member of FS Private Investments LLC, to exercise or control the exercise of rights conferred by the holding of all the shares in IDB Carriers (BVI) Limited. Accordingly, Mr Friedman is taken to be interested in the 241,195,194 Shares held by IDB Carriers (BVI) Limited.

- (5) 1,059,725 Shares, 22,335,373 Shares and 13,141,899 Shares are beneficially owned by Firelight Investments Limited, Eagle Pacific International Limited and Eagle Sky Investments Limited respectively. These companies are controlled by discretionary trusts established by Mr Lee, the discretionary objects of which include his family members.

(ii) Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, so far as is known to the Directors, the following parties have an interest or short position in the Shares and underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of 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:

Name	Capacity/Nature of Interest	Number of Shares	Approximate percentage of issued share capital of the Company (%)
Dry Bulk Shipping (BVI) Limited	Beneficial owner	289,433,689	22.84
IDB Carriers (BVI) Limited	Beneficial owner	241,195,194	19.04
Nassau Capital Real Estate Partners III L.P. ¹	Interest of a controlled corporation	289,433,689	22.84
Furman Selz Investors II L.P. ²	Interest of a controlled corporation	241,195,194	19.04
FS Private Investments LLC ²	Interest of a controlled corporation	241,195,194	19.04
James L Luikart ³	Interest of a controlled corporation	241,195,194	19.04
Pembroke	Beneficial owner	179,589,622	14.17

Note:

- (1) Nassau Capital Real Estate Partners III L.P. is interested in approximately 40% of the registered capital of Dry Bulk Shipping (BVI) Limited and is deemed or taken to be interested in these Shares and to hold this short position (which are beneficially owned by and attributable to Dry Bulk Shipping (BVI) Limited respectively) for the purposes of the Securities and Futures Ordinance.
- (2) Furman Selz Investors II L.P. is interested in approximately 88.2% of the registered capital of IDB Carriers (BVI) Limited, and FS Private Investments LLC is the manager of Furman Selz Investors II L.P. with power to control the exercise of voting rights attached to these Shares. Therefore Furman Selz Investors II L.P. and FS Private Investments LLC are deemed or taken to be interested in these Shares and to hold this short position (which are beneficially owned by and attributable to IDB Carriers (BVI) Limited respectively) for the purposes of the Securities and Futures Ordinance. FS Private Investments LLC does business under the name of Jefferies Capital Partners.
- (3) Mr Luikart is a managing member of FS Private Investments LLC, which is the manager of each of Furman Selz Investors II L.P., FS Employee Investors LLC and FS Parallel Fund LP, being the members of IDB Carriers (BVI) Limited. Under these arrangements, Mr Luikart is entitled, as a managing member of FS Private Investments LLC, to exercise or control the exercise of rights conferred by the holding of all

the shares in IDB Carriers (BVI) Limited. Accordingly, Mr Luikart is taken to be interested in these Shares and to hold this short position (which are beneficially owned by and attributable to IDB Carriers (BVI) Limited respectively) for the purposes of the Securities and Futures Ordinance.

Save as disclosed above, the Directors are not aware that there is any party who, as at the Latest Practicable Date, 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 meeting 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 6th Floor, Tai Yau Building, 181 Johnston Road, Wanchai, 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.