



Pacific Basin Shipping Limited

太平洋航運集團有限公司*

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

FURTHER ANNOUNCEMENT

The Company issued an announcement dated 18 August 2005 relating to the MOA setting out the terms of disposal of the Five Vessels and also the information regarding the simultaneous bareboat charter back of the Five Vessels (the "Transaction") which stated that such bareboat charterparty agreements will be classified as operating leases and did not constitute disclosable transactions under the Listing Rules. Accordingly, the Company disclosed the terms of the bareboat charterparties in the First Announcement as if such transactions were not disclosable transactions. The Company has subsequent to the First Announcement conducted further analysis of the accounting treatment most appropriate for the Transaction. This analysis forms an integral part of its review of the subsequent events statement to be included in the Company's 2005 interim report. The Company has concluded that the attractiveness of the purchase options contained in each of the five bareboat charterparty agreements, in terms of their exercise prices and the flexibility they provide over the timing of exercise, makes it reasonably certain that the options will be exercised and therefore puts the risks and rewards of vessel ownership more in the Company's favour. **Accordingly, the Company has concluded that (i) accounting for the Transaction in accordance with Hong Kong Accounting Standard No. 17 "Leases" by way of finance lease accounting rather than operating lease accounting represents a fairer presentation of the commercial effects of the Transaction and (ii) the Transaction constitutes a disclosable transaction of the Company under the Listing Rules.**

In the First Announcement, the Company stated that under operating lease accounting it expected to recognise a net gain in the Company's consolidated income statement in the financial year ending 31 December 2005 on the disposal of the Five Vessels of US\$3,363,518, being the difference between the sales proceeds received and the carrying value of the Five Vessels. As a result of using finance lease accounting there is no recognition of this estimated net gain. The net book value of owned assets and long-term liabilities will remain unchanged as the vessels are treated as having not been sold and the 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. The adoption of finance lease accounting will mean that the charter-hire payments of approximately US\$2,806,000 per quarter arising under the simultaneous transactions to bareboat charter the Five Vessels back will be accounted for as a combination of (i) repayments of finance lease obligations held on the balance sheet and (ii) finance charges in the profit and loss account during the charter period, in accordance with Hong Kong Accounting Standard No. 17 "Leases". There is not expected to be any material impact on the Company's results of operations upon entering into the Transaction or by concluding that finance lease accounting offers the most appropriate financial presentation as compared with immediately prior to the entering of the Transaction when the Five Vessels were owned by the Company.

Accordingly, the overall effect of the Transaction from an accounting perspective is that it represents a refinancing of the Five Vessels which should be considered as one composite disclosable transaction of the Company under the Listing Rules. Additional details of the bareboat charterparties are required to be disclosed by way of this further announcement as the Company disclosed the terms of the bareboat charterparties in the First Announcement as if such transactions were not disclosable transactions, and a circular with further details of the MOA and the simultaneous bareboat charter back of the Five Vessel will be issued to Shareholders shortly.

Unless otherwise defined herein, terms in this announcement shall have the same meanings as those defined in the First Announcement.

REVIEW OF THE MOA AND THE ACCOUNTING TREATMENT OF THE BAREBOAT CHARTER BACK OF THE FIVE VESSELS

The Company issued an announcement dated 18 August 2005 (the "First Announcement") relating to the MOA setting out the terms of disposal of the Five Vessels and also information regarding the simultaneous bareboat charter back of the Five Vessels (the "Transaction") which stated that such bareboat charterparty agreements will be classified as operating leases and accordingly did not constitute disclosable transactions under the Listing Rules. Accordingly, the Company disclosed the terms of the bareboat charterparties in the First Announcement as if such transactions were not disclosable transactions. The Company has subsequent to the First Announcement conducted further analysis of the accounting treatment most appropriate for the Transaction. This analysis forms an integral part of its review of the subsequent events statement to be included in the Company's 2005 interim report. The Company has concluded that the attractiveness of the purchase options contained in each of the five bareboat charterparty agreements, in terms of the exercise price and the flexibility over the timing of exercise, makes it reasonably certain that the options will be exercised and therefore puts the risks and rewards of vessel ownership more in the Company's favour. **Accordingly, the Company has concluded that (i) accounting for the Transaction in accordance with Hong Kong Accounting Standard No. 17 "Leases" as finance leases rather than operating leases represents a fairer presentation of the commercial effects of the Transaction and (ii) the Transaction constitutes a disclosable transaction of the Company under the Listing Rules.**

Unless otherwise defined herein, terms in this announcement shall have the same meanings as those defined in the First Announcement.

FURTHER DETAILS ON THE BAREBOAT CHARTER BACK OF THE FIVE VESSELS

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

Parties : Owners : The First Purchaser chartered out the First Vessel, the Second Purchaser chartered out the Second Vessel, the Third Purchaser chartered out the Third Vessel, the Fourth Purchaser chartered out the Fourth Vessel and the Fifth Purchaser chartered out the Fifth Vessel, each of which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, together with their ultimate beneficial owner (which is the same for each of the Purchasers), is a third party independent of the Company and connected persons (as defined in the Listing Rules) of the Company.

As far as the Directors are aware, having made all reasonable enquiry, the principal business activity of the Five Purchasers is the owning of the Five Vessels and the principal business activity of the ultimate beneficial owner of the Five Purchasers is the owning and financing of shipping vessels.

Charterers : Pacific Basin Chartering (No.1) Limited (the "First Charterer") chartered in the First Vessel, Pacific Basin Chartering (No.2) Limited (the "Second Charterer") chartered in the Second Vessel, Pacific Basin Chartering (No.3) Limited (the "Third Charterer") chartered in the Third Vessel, Pacific Basin Chartering (No.4) Limited (the "Fourth Charterer") chartered in the Fourth Vessel and Pacific Basin Chartering (No.5) Limited (the "Fifth Charterer") chartered in the Fifth Vessel, each an indirect wholly-owned subsidiary of the Company.

Assets to be chartered in : First Vessel: A 2004 built handysize dry bulk carrier of 28,433dwt, named "Cape Flattery" owned by Danad Shipping Company Limited. 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.

Second Vessel: A 2004 built handysize dry bulk carrier of 31,894dwt, named "Cook Strait" owned by Garboard Shipping Limited. 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.

Third Vessel: A 2004 built handysize dry bulk carrier of 32,754dwt, named "Sun Ruby" owned by Kathmandu Shipping Company Limited. 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.

Fourth Vessel: A 2003 built handysize dry bulk carrier of 32,751dwt, named "Black Forest" owned by Mullen Shipping Company Limited. 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.

Fifth Vessel: A 2002 built handysize dry bulk carrier of 28,483dwt, named "Mount Travers" owned by Santa Fe Shipping Company Limited. 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.

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 Charterers of all of their obligations, duties and liabilities under the bareboat charterparties.

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.

Net Profits and revenue attributable to the Five Vessels : The Five Vessels were all acquired by the Group on 31 March 2004 and were sold by the Sellers to the Purchasers on 18 August 2005 for US\$100,000,000. The net profit attributable to the Five Vessels before and after taxation for the year ended 31 December 2004 was US\$14,194,614 and the revenue attributable to the Five Vessels for the year ended 31 December 2004 was US\$22,001,649.

Period and payments under the bareboat charterparties : The Charterers shall pay the Purchasers approximately US\$2,806,000 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.

There is no early termination clause in the bareboat charterparties. However, under the five bareboat charterparties the Company has the option to re-purchase individually each of the Five Vessels with three months notice at any time during each bareboat charterparty. The purchase option prices will be reduced proportionally for the period of each bareboat charterparty completed. The purchase option prices contained in the relevant bareboat charterparty agreement for the relevant Vessel are on normal commercial terms and represent the sales consideration (as paid by the Five Purchasers under the Five Vessel MOA) less the principle repaid through the bareboat charter up to until the date the purchase option is exercised. The aggregate purchase option price for the Five Vessels at the end of the 10 year bareboat charterparties is US\$36,500,000 plus 35% of the amount by which the then fair market price exceeds the purchase option price. Pacific Basin 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; (2) the Company notifying the relevant Purchaser that a purchase option will not be exercised; or (3) the transfer by the Company of a purchase option to a third party.

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

Expected financial effect : The adoption of finance lease accounting at the inception of the Transaction will mean (i) the balance sheet will continue to show the net carrying value of the Five Vessels with the Five Vessels continuing 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; (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"; (iii) 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 and (iv) the charter-hire payments of approximately US\$2,806,000 every quarter arising under the simultaneous transactions to bareboat charter the Five Vessels back during the term of the bareboat charter 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".

In the First Announcement, the Company stated that under operating lease accounting it expected to recognise a net gain in the Company's consolidated income statement for the financial year ending 31 December 2005 on the disposal of the Five Vessels of US\$3,363,518, being the difference between the sales proceeds received and the carrying value of the Five Vessels. As a result of using finance lease accounting there is no recognition of this estimated net gain and there is no gain or loss on disposal of the Five Vessels.

In the First Announcement, the Company stated that 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%). This remains the Company's intention however, long-term liabilities will remain unchanged as bank borrowings (US\$51,000,000) secured on the Five Vessels and other bank borrowings (US\$49,000,000) which have been repaid out of the entire sale proceeds are replaced by finance lease obligations of an equivalent amount.

There is not expected to be any material impact on the Company's results of operations upon entering into the Transaction or by concluding that finance lease accounting offers the most appropriate financial presentation as compared with immediately prior to the entering of the Transaction when the Five Vessels were owned by the Company.

The Directors believe that the terms of the Transaction, which are on normal commercial terms and were determined after arm's length negotiation, are fair and reasonable so far as the Company and the Shareholders are concerned and are in the best interests of the Company and the Shareholders.

REASON 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, 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 is consistent with this strategy.

Furthermore, the Transaction outlined above enables the Company to repay bank borrowings on the Five Vessels (US\$51,000,000) and the prepayment of other bank borrowings (US\$49,000,000) and to retain commercial and operational control over the Five Vessels. The prepayment of other bank borrowings represents cash 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 sale of the Five Vessels contemplated under the MOA and the bareboat lease back of the Five Vessels, constitute discloseable transactions of the Company under the Listing Rules. Additional details of the bareboat charterparties are required to be disclosed by way of this further announcement as the Company disclosed the terms of the bareboat charterparties in the First Announcement as if such transactions were not disclosable transactions, and a circular with further details of the MOA and the simultaneous bareboat charter back of the Five Vessels will be issued to Shareholders shortly.

By Order of the Board
Andrew Broomhead
Company Secretary

Hong Kong, 5 September 2005

* For identification purposes only

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