Pacific Basin Shipping Limited

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

DISCLOSEABLE TRANSACTIONS: EXERCISE OF OPTIONS TO PURCHASE CHARTERED-IN VESSELS

The Group will purchase 10 vessels through exercising purchase options on 10 bareboat charterparties of vessels that are currently treated as finance lease vessels in its consolidated accounts. The owners of the vessels are two separate groups of sellers.

Five indirect wholly-owned subsidiaries of the Company (as "First Buyers") entered into the First Agreement with the First Sellers, pursuant to which the First Buyers exercised the options under the relevant bareboat charterparties to purchase all five handysize vessels on 10 June 2013 for an aggregate consideration of US$56.3 million. Simultaneously, the bareboat charterparties of these five vessels were terminated.

On the same date, another five indirect wholly-owned subsidiaries of the Company (as "Second Buyers") entered into the Second Agreement with the Second Sellers, pursuant to which the Second Buyers will exercise the options under the relevant bareboat charterparties to purchase all five handysize vessels on 29 July 2013 for an aggregate consideration of US$62.5 million. Upon such purchase, the bareboat charterparties of these five vessels will be terminated simultaneously.

These transactions are required to be disclosed by way of this announcement as (i) the exercise of the options to purchase Vessels A to E under the First Agreement and (ii) the exercise of the options to purchase Vessels F to J under the Second Agreement, each on an aggregated basis, respectively constitute discloseable transactions of the Company under the Listing Rules.

Principal terms of the First Agreement and the Second Agreement are set out below.

(A) THE FIRST AGREEMENT

Date : 10 June 2013

Parties – buyers :

(a) Pacific Basin Chartering (No. 1) Limited, for "Cape Flattery";

(b) Pacific Basin Chartering (No. 2) Limited, for "Cook Strait";

(c) Pacific Basin Chartering (No. 3) Limited, for "Sun Ruby";

(d) Pacific Basin Chartering (No. 4) Limited, for "Black Forest"; and

(e) Pacific Basin Chartering (No. 5) Limited, for "Mount Travers",

(each a "First Buyer" and collectively the "First Buyers"), each being an indirect wholly-owned subsidiary of the Company.

– sellers		(a) Danad Shipping Company Limited, for “Cape Flattery”; (b) Garboard Shipping Limited, for “Cook Strait”; (c) Kathmandu Shipping Company Limited, for “Sun Ruby”; (d) Mullen Shipping Company Limited, for “Black Forest”; and (e) Santa Fe Shipping Company Limited, for “Mount Travers”, (each a “First Seller” and collectively the “First Sellers”). To the best of the knowledge, information and belief of the directors of the Company (the “Directors”), having made all reasonable enquiry, (i) the First Sellers, together with their ultimate beneficial owner (which is the same for each First Seller), are not connected persons (as defined in the Listing Rules) of the Company and are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company; (ii) the principal business activity of the First Sellers is the owning of Vessels A to E respectively and the principal business activity of their ultimate beneficial owner is the owning and financing of shipping vessels; and (iii) save for the transactions disclosed in this announcement, during the 12 months period prior to the date of the First Agreement, the Company has not entered into any transaction with the First Sellers or their ultimate beneficial owner or with parties connected or otherwise associated with one another and there are no other relationships between the First Sellers or their ultimate beneficial owner with whom the Company has entered into transactions to acquire, dispose of, or charter in vessels.
Assets to be purchased	:	Five handysize dry bulk carriers constructed in Japan, namely: Cape Flattery: 2004-built, 28,433 dwt (“Vessel A”); Cook Strait: 2004-built, 31,894 dwt (“Vessel B”); Sun Ruby: 2004-built, 32,754 dwt (“Vessel C”); Black Forest: 2003-built, 32,751 dwt (“Vessel D”); and Mount Travers: 2002-built, 28,483 dwt (“Vessel E”).
Consideration	:	US$56.3 million in aggregate, being US$11.5 million for each of Vessels A, B and C, US$11.2 million for Vessel D and US$10.6 million for Vessel E. Such consideration comprises (i) the aggregate purchase option prices of US$55.4 million on 10 June 2013; and (ii) a lump sum fee of US$0.9 million (“Profit Share Payment”) relating to the Profit Share Arrangement under the relevant bareboat charterparties. The individual purchase option prices for each of Vessels A to E are pre-determined in the relevant bareboat charterparties with the principal repaid through the bareboat charters up to 10 June 2013.

		The overall consideration (including the Profit Share Payment) was determined after arm's length negotiation between the parties and is on normal commercial terms. The payment of the consideration of Vessels A to E was satisfied entirely in cash upon the delivery of the vessels to the First Buyers on 10 June 2013. The consideration was funded by the cash reserves of the Company and approximately 60% of such consideration is expected to be eventually funded from new long-term bank borrowings, which the Company intends to arrange after the delivery of the vessels.
Aggregate profit before and after taxation attributable to Vessels A to E	:	For the financial year ended 31 December 2012: US$ 0.1 million. For the financial year ended 31 December 2011: US$ 5.9 million.
Carrying values of Vessels A to E	:	The carrying values of Vessels A to E in the Company's unaudited consolidated accounts as at 31 May 2013 were US$69.1 million in aggregate.
Completion and delivery	:	The First Buyers assumed ownership over Vessels A to E on 10 June 2013 and the bareboat charterparties of these vessels were terminated simultaneously.

(B) THE SECOND AGREEMENT

Date	:	10 June 2013
Parties – buyers	:	(a) Pacific Basin Chartering (No. 6) Limited, for "Timaru Star"; (b) Pacific Basin Chartering (No. 7) Limited, for "Port Pegasus"; (c) Pacific Basin Chartering (No. 8) Limited, for "Albany Sound"; (d) Pacific Basin Chartering (No. 9) Limited, for "Ocean Exporter"; and (e) Pacific Basin Chartering (No. 10) Limited, for "Cape Nelson", (each a "Second Buyer" and collectively the "Second Buyers"), each being an indirect wholly-owned subsidiary of the Company.
– sellers		(a) Octans Limited, for "Timaru Star"; (b) Lochside Limited, for "Port Pegasus"; (c) Fearn Limited, for "Albany Sound"; (d) Carina Limited, for "Ocean Exporter"; and (e) Alvie Limited, for "Cape Nelson", (each a "Second Seller" and collectively the "Second Sellers").

To the best of the knowledge, information and belief of the Directors, having made all reasonable enquiry,

(i) the Second Sellers, together with their ultimate beneficial owner (which is the same for each Second Seller), are not connected persons (as defined in the Listing Rules) of the Company and are third parties independent of the Company and connected persons (as defined in the Listing Rules) of the Company;

(ii) the principal business activity of the Second Sellers is the owning of Vessels F to J respectively and the principal business activity of their ultimate beneficial owner is the owning and financing of shipping vessels; and

(iii) save for the transactions disclosed in this announcement, during the 12 months period prior to the date of the Second Agreement, the Company has not entered into any transaction with the Second Sellers or their ultimate beneficial owner or with parties connected or otherwise associated with one another and there are no other relationships between the Second Sellers or their ultimate beneficial owner with whom the Company has entered into transactions to acquire, dispose of, or charter in vessels.

Assets to be purchased : Five handysize dry bulk carriers constructed in Japan, namely:

Timaru Star: 2004-built, 31,893 dwt ("Vessel F");

Port Pegasus: 2004-built, 32,774 dwt ("Vessel G");

Albany Sound: 2002-built, 28,379 dwt ("Vessel H");

Ocean Exporter: 2002-built, 28,461 dwt ("Vessel I"); and

Cape Nelson: 2001-built, 28,438 dwt ("Vessel J").

Consideration : US$62.5 million in aggregate, being US$12.9 million for each of Vessels F and G, US$12.3 million for each of Vessels H and I and US$12.1 million for Vessel J. Such consideration represents the aggregate purchase option prices of these vessels on 29 July 2013. It has been agreed that no payment will be made pursuant to the Profit Share Arrangement under the relevant bareboat charterparties.

The individual purchase option prices for each of Vessels F to J are pre-determined in the relevant bareboat charterparties with the principal repaid through the bareboat charters up to 29 July 2013.

The consideration was determined after arm's length negotiation between the parties and is on normal commercial terms.

The payment of the consideration of Vessels F to J will be satisfied entirely in cash upon the delivery of the vessels to the Second Buyers on 29 July 2013. The consideration is expected to be funded by the cash reserves of the Company and about 60% of such consideration is expected to be eventually funded from new long-term bank borrowings, which the Company intends to arrange after the delivery of the vessels.

Aggregate (loss)/profit before and after taxation attributable to Vessels F to J	:	For the financial year ended 31 December 2012: US$(1.0) million. For the financial year ended 31 December 2011: US$6.0 million.
Carrying values of Vessels F to J	:	The carrying values of Vessels F to J in the Company's unaudited consolidated accounts as at 31 May 2013 were US$51.9 million in aggregate.
Completion and delivery	:	It is currently expected that the Second Buyers will assume ownership over Vessels F to J on 29 July 2013, whereupon the bareboat charterparties of these vessels will be terminated simultaneously.

FINANCIAL EFFECTS OF THE TRANSACTIONS

The bareboat charters of each of Vessels A to J have been treated as finance leases of the Company in its consolidated accounts. Accordingly, the transactions of exercising the options to purchase the vessels under the First Agreement and the Second Agreement will be booked as a prepayment of the outstanding finance lease liabilities of US$54.7 million in respect of Vessels A to E and US$60.9 million in respect of Vessels F to J. The consolidated balance sheet of the Company will continue to show the same net carrying value of the vessels which will be depreciated over their remaining useful lives in the same manner as when the vessels were on finance leases.

The Company has put up cash collaterals of US$17.0 million in respect of Vessels A to E and US$33.2 million in respect of Vessels F to J to cover the previous shortfall in asset value to comply with the loan to asset value requirement under the bareboat charterparties. Such cash collaterals, which were shown as restricted bank deposits on the Company's consolidated balance sheet as at 31 December 2012, will be used to partly fund the respective consideration to purchase Vessels A to E and Vessels F to J.

Exercising the options to purchase the vessels will not change the handysize revenue days and the earnings attributable to the 10 vessels. The current estimated financial effects of the transactions in the consolidated income statement of the Company are as follows:

US$' million	**Note**	**1st half 2013**	**2nd half 2013**	**2013**
Indicative termination costs on interest rate swap contracts passed on by the First Sellers and the Second Sellers	1	4.4	8.2	12.6
Profit Share Payment		0.9	–	0.9
Other finance charge	2	0.7	1.6	2.3
Total		6.0	9.8	15.8

Note 1: The bareboat charterparties stipulate that each of the First Buyers and the Second Buyers will reimburse the relevant First Sellers and Second Sellers for the costs incurred as a result of breaking any fixing of the rate of hire as a consequence of the bareboat charters being terminated prior to the end of the charter periods. The above termination costs of US$4.4 million in the first half of 2013 relate to Vessels A to E and US$8.2 million in the second half of 2013 relate to Vessels F to J. The actual termination costs for Vessels F to J may differ from the above depending on the projected interest rates over the remaining charter period on the day of termination.

Note 2: Other finance charge represents the difference between the purchase option prices payable and the carrying amount of the finance lease liabilities to be de-recognised on the Company's consolidated balance sheet. Such difference will be charged to the consolidated income statement of the Company.

However, the transactions will result in an aggregate saving of interest on finance leases of US$21.1 million over the contracted remaining period of the bareboat charterparties, split between the years as to US$3.9 million, US$7.1 million, US$5.2 million, US$2.9 million and US$2.0 million for the remainder of 2013, 2014, 2015, 2016 and 2017 respectively. This interest saving will be partly offset by the cost of new borrowings that are expected to be raised against the vessels in due course.

REASONS FOR THE TRANSACTIONS

The Company is looking for opportunities to buy and charter both new and second hand ships. The Board considers that these vessels can be purchased at historically attractive prices and that they will continue to be beneficially employed within the Group's fleet also after the expiry of the bareboat charter periods. Accordingly the Company has decided to exercise the purchase options at this time to minimise any future potential payments under the Profit Share Arrangement.

The Directors believe that the terms of the First Agreement and the Second Agreement, which were determined after arm's length negotiation, on normal commercial terms, are fair and reasonable and in the interests of the Company and its shareholders as a whole.

PRINCIPAL BUSINESS ACTIVITIES OF THE COMPANY

Pacific Basin Shipping Limited is one of the world's leading owners and operators of modern Handysize and Handymax dry bulk vessels. The Company is listed and headquartered in Hong Kong, and currently operates in two main maritime sectors under the banners of Pacific Basin Dry Bulk and PB Towage. We also own six specialised Roll-on Roll-off (RoRo) ships. Our fleet (including newbuildings on order) comprises over 230 vessels directly servicing blue chip industrial customers. With approximately 2,100 seafarers and 320 shore-based staff in 17 offices in key locations around the world, Pacific Basin provides a comprehensive quality service to a wide range of customers.

DEFINITIONS

In this announcement, unless the context otherwise requires, terms used herein shall have the same meanings as defined in Company's circular dated 20 September 2005. The following terms shall have the following meanings in this announcement:

"Board"	means the board of directors of the Company;
"Company" or "Pacific Basin"	means Pacific Basin Shipping Limited, a company incorporated in Bermuda with limited liability, whose shares are listed on the main board of the Stock Exchange;
"First Agreement"	means the legally binding agreements dated 10 June 2013 entered into between the First Buyers and the First Sellers, pursuant to which the First Buyers agreed to exercise the options under the relevant bareboat charterparties to purchase Vessels A, B, C, D and E from the respective First Sellers according to the terms as set out therein;
"Listing Rules"	means The Rules Governing the Listing of Securities on the Stock Exchange;
"Profit Share Arrangement"	means the mark-up payable to each of the First Sellers and the Second Sellers under the bareboat charterparties, which was set as 35% of the amount by which the prevailing fair market price of the relevant vessel exceeds the relevant purchase option price;

“Second Agreement”	means the legally binding agreements dated 10 June 2013 entered into between the Second Buyers and the Second Sellers, pursuant to which the Second Buyers agreed to exercise the options under the relevant bareboat charterparties to purchase Vessels F, G, H, I and J from the respective Second Sellers according to the terms as set out therein; and
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited.

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

Hong Kong, 10 June 2013

As at the date of this announcement, the Directors of the Company are:

Executive Directors:
David Muir Turnbull, Mats Henrik Berglund, Jan Rindbo, Andrew Thomas Broomhead and Chanakya Kocherla

Independent non-executive Directors:
Patrick Blackwell Paul, Robert Charles Nicholson, Alasdair George Morrison and Daniel Rochfort Bradshaw