Pacific Basin Shipping Limited

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

PROFIT WARNING
ISSUE OF PRICE SENSITIVE INFORMATION

This announcement is made by the Company pursuant to Rule 13.09(1) of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules").

The Board of Pacific Basin Shipping Limited (the "Company" and, together with its subsidiaries, the "Group") wishes to inform the Company's shareholders and potential investors that, following a reassessment of the prospects for the roll-on roll-off ("RoRo") market and the Company's RoRo business, it is expected that a non-cash impairment charge of US$190 million will be reflected in the Company's consolidated results for the six months ended 30 June 2012.

Background

A high proportion of the global RoRo fleet operates in the European market, where the protracted debt crisis and continued macro-economic and political uncertainties are significantly delaying prospects of a recovery in demand and the possibility of opening up new RoRo routes. Operators' demand for long, medium and short-term chartered RoRo vessels has significantly reduced in the past few months. The problem is further exacerbated by the influx of newbuildings delivering into an already over-supplied larger (over 2,700 lane metre) RoRo sector. This is evident from the growing number of idle vessels globally, among which are our newest two specialised 3,700 lane metre RoRo vessels which will continue to be laid-up in the United Kingdom until acceptable employment materialises.

The immediate and mounting challenges have led us to reassess the prospects for the larger RoRo sector and for our RoRo business, with a particular focus on the likely future earnings of our six RoRo vessels and the consequential impact on their valuations.

Likely Future Earnings

In August 2011, we reported a RoRo-related impairment of US$80 million charged in the Group's 2011 interim results. At that time, we anticipated a slow but gradual recovery in RoRo earnings to pre-financial-crisis levels of 2008. We still held this view at the time of our 2011 annual results announcement and our 2012 first quarter trading update. However, given current European market conditions, we have downgraded our RoRo earnings outlook to reflect a much flatter expected recovery in charter rates that are not likely to exceed 75% of their 2008 peak.

Market Values

The market value of RoRo vessels has become increasingly difficult to judge in past months. There have been no sales of comparable second-hand vessels since November 2009 and the sale and purchase market for modern RoRo vessels appears to have become dysfunctional.

Conclusion

Taking the two factors together, the Board has downgraded its outlook for the long-term earnings of our RoRo fleet and consequently our RoRo business. Based on this conclusion, the Board expects that a non-cash impairment charge of US$190 million will be reflected in the Company's consolidated results for the six months ended 30 June 2012. The Group is expected to record a net loss for the period, as compared to a profit of US$3.0 million for the six months ended 30 June 2011.

This expected impairment represents the Board's current best assessment of the vessels' value-in-use over their expected life. The dysfunctional state of the RoRo market has required significant judgement to determine the amount of the impairment. Long-term daily vessel earnings are a key sensitivity in calculating the impairment, with an approximately US$30 million adjustment for every US$1,000-equivalent decrease or increase in the daily vessel earnings assumption.

Financial Effects of the Impairment Charge

The expected impairment will be a non-cash charge which will result in an accelerated depreciation of the six vessels. It will not impact the operation or operating cashflows of the Group, which will still benefit from a robust balance sheet. As at 31 May 2012, the Group had unaudited cash balances of US$662 million, borrowings of US$860 million and a net borrowings ratio of 14.5% against the net book value of property, plant and equipment post impairment.

The impairment will reduce the daily depreciation of our RoRo vessels by approximately 50% to US$3,000 per day per vessel, resulting in an aggregate reduction in depreciation charges of approximately US$6.6 million per year. On a full-year basis, we estimate our revised daily vessel costs will range between US$11,100 and US$15,800 per day (including operating expenses, depreciation, allocated finance costs and direct overheads), depending on whether a vessel is in lay-up or in operation.

Earnings cover is currently in place for 41% of our 2012 RoRo capacity at an average rate of US$18,600 per day. If all optional charter periods are exercised by our customers, this cover would increase to 49% at an average rate of US$17,850 per day. Earnings cover is in place for 4% of our 2013 RoRo capacity at an average rate of US$12,350 per day, which would increase to 16% at an average rate of US$13,230 per day if all optional charter periods are exercised.

Consistent with our two previous RoRo-related impairments, the expected US$190 million impairment charge will be disclosed in the "Unallocated Others" segment and not in our PB RoRo segment results. However, the charge does reduce the carrying value of the PB RoRo segment's assets.

Future Strategy

The Board recognises that the original premise for diversifying into the RoRo sector as a tonnage provider is no longer compelling. We do not have our own route network to fall back on for employment of our RoRos and we are therefore fully exposed to the current period of severe weakness in this sector. As a consequence of the above reassessment of the prospects for our RoRo business, we no longer regard RoRo shipping to be a core activity of the Pacific Basin group. However, in view of the dysfunctional conditions in the sale and purchase market for RoRo vessels, an exit from this segment in the near term is unrealistic.

Accordingly, we will look to manage our RoRo investment and exit the sector in an economically rational manner that realises the maximum possible value for our shareholders over the medium term. This will take time, patience and may also require some investment in initiatives and ventures to unlock trading opportunities for our RoRos until such time as we can realise our investment on acceptable terms.

We remain committed to our towage business which is performing well and in line with our expectations. We reaffirm that the majority of our future investments will be in the dry bulk shipping sector where our long-standing expertise lies.

In the dry bulk shipping sector, excess ship supply, depressed spot earnings and a significant contraction in funding continue to challenge all ship owners, many of whom face severely impacted corporate earnings and cash positions. However, we operate in the less volatile and more industrial Handysize and Handymax segments and we benefit from strong cargo and customer support, and a business model that better equips us to outperform the market, as demonstrated by our track record. These factors are enhanced by our strong cash and balance sheet positions, which will allow us to pursue opportunities to expand our fleet of Handysize and Handymax ships at the right time and price.

General

This announcement is made pursuant to Rule 13.09(1) of the Listing Rules.

This announcement is only prepared based on the Company's preliminary review of the Group's internal records and management accounts, and has not been reviewed or audited by external auditors. The unaudited consolidated results of the Company for the six months ended 30 June 2012 are scheduled to be announced on 1 August 2012.

Shareholders and potential investors are advised to take note of this development when dealing in the shares of the Company.

By Order of the Board
Andrew T. Broomhead
Executive Director and Company Secretary

Hong Kong, 18 June 2012

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