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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:  
ACQUISITION OF SHIPPING VESSELS**

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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:*

“Board”	means the board of directors of the Company;
“Classification Society”	means an independent society which certifies that a vessel has been built and maintained in accordance with the rules of such society and complies with the applicable rules and regulations of the flag state of such vessel and the international conventions of which that country is a member;
“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;
“First MOA”	means the legally binding unconditional Memorandum of Agreement dated 28 June 2006 entered into between Caterina (BVI) Limited and Seller A for the acquisition of Vessel A by Caterina (BVI) Limited;
“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;
“IHC Pool”	the International Handybulk Carriers Pool established in October 2001, which is a contractual arrangement for the sharing of revenue earned by vessels entered into by its members. The IHC Pool is operated by International Handybulk Carriers Limited (formerly International Handybulk Carriers Management Limited), a wholly-owned subsidiary of the Company;

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## DEFINITIONS

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“IHX Pool”	the International Handymax Carriers Pool, which is a contractual arrangement for the sharing of revenue earned by vessels entered into by its members and will be operated by International Handymax Carriers Limited, a wholly-owned subsidiary of the Company;
“Latest Practicable Date”	means 6 July 2006, 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;
“MOAs”	means First MOA and Second MOA;
“Seller A”	Seafair Shipping Limited;
“Seller B”	Ratu Shipping Co., S.A.;
“Sellers”	means Seller A and Seller B;
“Second MOA”	means the legally binding unconditional Memorandum of Agreement dated 28 June 2006 entered into between Kia Shipping (BVI) Limited and Seller B for the acquisition of Vessel B by Kia Shipping (BVI) Limited;
“Shareholders”	means the shareholders of the Company;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Vessel A”	A 2001 built handymax dry bulk carrier of approximately 52,394dwt, named “Star Victory”. The present flag of the vessel is the Philippines and the place of registration is the Philippines. The Classification Society of the vessel is Det Norske Veritas;

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## DEFINITIONS

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“Vessel B”	A 2000 built handymax dry bulk carrier of approximately 45,578dwt, named “Falcon Trader”. The present flag of vessel is the Philippines and the place of registration is the Philippines. The Classification Society of the vessel is Bureau Veritas; and
“Vessels”	means Vessel A and Vessel B.



# 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  
Paul Charles Over

*Non-Executive Directors:*

Daniel Rochfort Bradshaw  
Lee Kwok Yin, Simon

*Independent Non-Executive Directors:*

Robert Charles Nicholson  
Patrick Blackwell Paul  
The Earl of Cromer  
David Muir Turnbull

*Registered Office:*

Clarendon House  
2 Church Street  
Hamilton HM11  
Bermuda

*Hong Kong Principal Office:*

7th Floor, Hutchison House  
10 Harcourt Road  
Central  
Hong Kong

11 July 2006

*To the Shareholders*

Dear Sir or Madam

## **DISCLOSEABLE TRANSACTIONS: ACQUISITION OF SHIPPING VESSELS**

### **INTRODUCTION**

On 28 June 2006, the Directors announced that,

- (A) an indirect wholly-owned subsidiary of the Company entered into the First MOA with Seafair Shipping Limited to acquire from it a handymax vessel (Vessel A) for a consideration of US\$31,820,000 (approximately HK\$246,923,200); and
- (B) another indirect wholly-owned subsidiary of the Company entered into the Second MOA with Ratu Shipping Co., S.A. to acquire from it another handymax vessel (Vessel B) for a consideration of US\$27,500,000 (approximately HK\$213,400,000).

\* For identification purposes only

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## LETTER FROM THE BOARD OF DIRECTORS

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The total consideration for the Vessels is US\$59,320,000 (approximately HK\$460,323,200). Principal terms of the MOAs are set out below in this circular.

The transactions contemplated under the 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 in relation to the transactions.

### THE MOAs

#### Background for the MOAs

On 28 June 2006, an indirect wholly-owned subsidiary of the Company entered into the First MOA with Seafair Shipping Limited to acquire from it Vessel A for a consideration of US\$31,820,000 (approximately HK\$246,923,200). On the same day, another indirect wholly-owned subsidiary of the Company entered into the Second MOA with Ratu Shipping Co., S.A. to acquire from it Vessel B for a consideration of US\$27,500,000 (approximately HK\$213,400,000). The total consideration for the Vessels is US\$59,320,000 (approximately HK\$460,323,200).

Vessel A is a 2001 built handymax dry bulk carrier of approximately 52,394dwt currently expected to be delivered in the third quarter of 2006 while Vessel B is a 2000 built handymax dry bulk carrier of approximately 45,578dwt currently expected to be delivered by the end of August 2006. Principal terms of the MOAs are set out below.

#### The MOAs

The MOAs are legally binding, of broadly similar terms and conditions and are described below:

Date : 28 June 2006

Parties : Purchasers : Caterina (BVI) Limited, for the First MOA; and  
Kia Shipping (BVI) Limited, for the Second MOA,

each being an indirect wholly-owned subsidiary of the Company.

Sellers : Seafair Shipping Limited (“Seller A”), for the First MOA; and

Ratu Shipping Co., S.A. (“Seller B”) for the Second MOA,

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## LETTER FROM THE BOARD OF DIRECTORS

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which, to the best of the Directors' knowledge, information and belief having made all reasonable enquiry, together with their respective ultimate beneficial owners (the ultimate beneficial owners for Seller A and Seller B are not the same), 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 activities of the Sellers are the owning and operating of shipping vessels (including the Vessels) and the principal business activities of the ultimate beneficial owners of the Sellers are the owning and operating of shipping vessels.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, there is no relationship between the Sellers together with their respective ultimate beneficial owners, and save for the transactions disclosed in this circular, there are no other relationships amongst the Sellers and their respective ultimate beneficial owners with whom the Company has entered into transactions to acquire, dispose of, or charter in vessels during the 12 months prior to the date of the MOAs.

Assets to be acquired : First MOA : A 2001 built handymax dry bulk carrier of approximately 52,394dwt, named "Star Victory" ("Vessel A"). The flag of Vessel A is presently the Philippines and the place of registration is the Philippines. The Classification Society of Vessel A is Det Norske Veritas. The Company intends to change the name of Vessel A to "Pacific Victory" and to change the flag and place of registration of Vessel A to Hong Kong and for Vessel A to be operated by the Company from the time of delivery.



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## LETTER FROM THE BOARD OF DIRECTORS

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Second MOA : A 2000 built handymax dry bulk carrier of approximately 45,578dwt, named “Falcon Trader” (“Vessel B”). The flag of Vessel B is presently the Philippines and the place of registration is the Philippines. The Classification Society of Vessel B is Bureau Veritas. The Company intends to change the name of Vessel B to “Pacific Trader” and to change the flag and place of registration of Vessel B to Hong Kong and for Vessel B to be operated by the Company from the time of delivery.

The Company, having made all reasonable enquiry, does not have access to information regarding the profits before and after taxation of the Vessels for the years ended 31 December 2004 and 31 December 2005.

Consideration : Vessel A: US\$31,820,000 (approximately HK\$246,923,200); and  
Vessel B: US\$27,500,000 (approximately HK\$213,400,000).

The consideration for each of the Vessels was respectively determined by reference to market intelligence the Company has 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 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 vessels of the exact age and size of the Vessels from which to make a direct comparison. In addition, no third party valuation has been performed on the Vessels.

The Directors believe that such 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 and is in the interests of the Company and the Shareholders as a whole.

It is intended that payment of the purchase price of the Vessels will be satisfied entirely in cash, approximately 10% of which is expected to be funded from internal resources, approximately 30% by redrawing loans from prepaid existing bank loan facilities of the Company and approximately 60% from new bank borrowings, which the Company intends to arrange nearer the time for payment of the Vessels. The Company expects 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, approximately 90% of the purchase price of the Vessels in total will be funded by redrawing loans from prepaid existing bank loan facilities of the Company.

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## LETTER FROM THE BOARD OF DIRECTORS

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Payment terms : Under the MOAs, the consideration shall be payable in the following manner:

- 10% of the purchase price (being the deposit) was paid at the time of signing the MOAs; and
- the balance of the purchase price shall be paid upon the respective deliveries of the Vessels. The delivery dates for Vessel A and Vessel B must not be later than 31 October 2006 and 31 August 2006 respectively, unless the parties otherwise agree.

Completion and delivery : Pursuant to the First MOA, the latest date for completion is 31 October 2006, unless the parties otherwise agree. The Directors currently expect that completion and delivery of Vessel A will take place in the third quarter of 2006. The Company will make a further announcement if delivery of Vessel A does not take place by 31 October 2006.

Pursuant to the Second MOA, the latest date for completion is 31 August 2006, unless the parties otherwise agree. The Directors currently expect that completion and delivery of Vessel B will take place by the end of August 2006. The Company will make a further announcement if delivery of Vessel B does not take place by 31 August 2006.

### **Financial effects of the transactions**

Following the delivery of the Vessels, the Group's fixed assets (owned vessels) will increase by the amount of the aggregate consideration of US\$59,320,000 (approximately HK\$460,323,200). Current assets are expected to decrease by US\$5,932,000 (approximately HK\$46,032,320), being 10% of the purchase price of the Vessels funded from internal cash. It is intended that approximately 30% of the purchase price of the Vessels will be satisfied by redrawing loans from prepaid existing bank loan facilities of the Company and approximately 60% of the purchase price of the Vessels will be satisfied from new bank borrowings. Hence, if the Company successfully obtains such new bank borrowings, the Group's long-term liabilities are expected to increase by US\$48,030,000 (approximately HK\$372,712,800) and current liabilities are expected to increase by US\$5,358,000 (approximately HK\$41,578,080).

The expected benefit following the acquisition of the Vessels will be that the Company will have secured two additional vessels for its handymax fleet, giving an anticipated increase in handymax revenue days of approximately 270 days in 2006 and approximately 720 days in 2007 and this is expected to enhance earnings accordingly.

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## LETTER FROM THE BOARD OF DIRECTORS

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### REASONS FOR THE TRANSACTIONS

The Company is one of the world's leading dry bulk shipping companies operating principally in the Asia Pacific region. It has been seeking opportunities to acquire additional handysize and handymax vessels to expand its fleet to meet growing customer demand and to deliver sustainable growth and long-term shareholder value. With a large fleet of modern vessels, Pacific Basin seeks to offer its customers a reliable service with a high degree of scheduling flexibility whilst maintaining the Company's operational efficiency.

The Company entered the handymax segment as an operator in December 2005. The Company has since experienced strong demand for handymax services from several long established customers of its handysize operations, and also from new international handymax customers. The Company has decided to expand its handymax fleet to reinforce its presence in this market segment. The opportunity to purchase the Vessels is consistent with the Company's strategy outlined above.

The Directors believe that the terms of the MOAs, 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 that the acquisition of the Vessels is in the interests of the Company and the Shareholders as a whole.

### THE FLEET

#### Handymax fleet

Following the delivery of the Vessels into the owned fleet, the Company's handymax fleet will comprise four vessels (205,166dwt), including two owned vessels (97,972dwt) and two chartered-in vessels (107,194dwt).

The Vessels will be employed in a mixture of time charters and voyage charters through the IHX Pool. The two existing handymax vessels are employed on long-term time charters.

#### Handysize fleet

Following (i) the delivery of the East Tender and the Ocean Bulker currently expected to be in the third quarter of 2006, as separately announced on 29 May 2006 and 8 December 2005, respectively; and (ii) the delivery of the Shinyo Challenge, an existing long-term chartered-in vessel, into the owned fleet currently expected to be within July 2006, pursuant to the exercise of the purchase option in March 2006, the Company's handysize fleet will comprise 52 vessels (1,507,936dwt), including 22 owned vessels (640,252dwt), 28 chartered-in vessels (816,142dwt) and two managed vessels (51,542dwt). All of the handysize vessels, with the exception of one handysize vessel (28,730dwt), are employed in a mixture of voyage charters and time charters through the IHC Pool.

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## LETTER FROM THE BOARD OF DIRECTORS

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In addition, the Company has 13 newbuilding handysize vessels on order, three of which are scheduled to deliver in 2006, four in 2007, three in 2008 and three in 2009. Nine of these newbuilding vessels (approximately 287,700dwt in aggregate) will enter into the owned fleet and four (approximately 116,200dwt in aggregate) will enter into the long-term chartered-in fleet upon their deliveries.

There is no distinction between the use of owned, chartered-in and managed vessels, save to the extent that the Company generates freight and charter-hire income for the owned and chartered-in vessels, but generates ship management income for the operations of the managed vessels.

The transactions contemplated under the 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 in relation to the transactions.

### **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*

*Note:* An exchange rate of US\$1.00 to HK\$7.76 has been used for the conversion of US Dollars into HK Dollars for the purpose of this circular.

## 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:*

1,287,815,609 shares (Shares of US\$0.10 each) 128,781,560

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 on or dealt in 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 to be notified to the Company and the Stock Exchange, were as follows:

### Long positions in the Shares, 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>	3,200,000 <sup>1</sup>	27,213,517	2.11%
Richard M Hext	-	4,353,741 <sup>2</sup>	-	-	-	4,353,741	0.34%
Paul C Over	-	-	-	23,535,041 <sup>4</sup>	3,200,000 <sup>1</sup>	26,735,041	2.08%
Lee Kwok Yin, Simon	-	-	-	91,136,220 <sup>5</sup>	-	91,136,220	7.08%
Patrick B Paul	-	20,000	-	-	-	20,000	0.002%
Daniel R Bradshaw	869,417 <sup>6</sup>	-	-	-	-	869,417	0.068%

#### Notes:

- (1) On 14 July 2004, each of Christopher Buttery 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.

Each of Christopher Buttery and Paul Over has exercised their options to subscribe for 1,600,000 Shares in September 2005 at the price of HK\$2.50 per Share.

- (2) On 8 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 have vested on 5 April 2006, 666,667 Shares will vest on 5 April 2007, 666,667 Shares will vest on 5 April 2008, 666,666 Shares will vest on 5 April 2009 and 666,666 Shares will vest on 5 April 2010.

On 28 March 2006, the 5 million Share options granted to Mr Hext when he joined the Company as an executive Director on 5 April 2005 were cancelled and in their place he was granted 1,020,408 Shares in the form of restricted share awards, of which 204,080 Shares have vested on 5 April 2006, 204,080 Shares will vest on 5 April 2007, 204,080 Shares will vest on 5 April 2008, 204,080 Shares will vest on 5 April 2009 and 204,088 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, 21,820,000 Shares and 25,986,000 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 Dr Lee, the discretionary objects of which include his family members.
- (6) Mr Bradshaw is a shareholder in Cormorant Shipping Limited and Goldeneye Shipping Limited. He beneficially owns 353,241 Shares via Cormorant Shipping Limited and is taken to be interested in the 516,176 Shares held by Goldeneye Shipping Limited.

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

As at the Latest Practicable Date, so far as is known to the Directors, each of the following parties 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:

Name	Capacity/Nature of interest	Number of Shares	Approximate percentage of issued share capital of the Company
Lee Kwok Yin, Simon	Founder of a discretionary trust	91,136,220	7.08%
JP Morgan Chase & Co.	Investment manager and approved lending agent	91,041,000	7.07%
Pembroke Shipping Limited	Beneficial owner	87,055,253	6.76%
Lazard Asset Management LLC	Investment manager	82,455,300	6.40%

Save as disclosed, 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 meetings 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 HM11, 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.