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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:

- (1) SALE OF SEVEN VESSELS AND BAREBOAT CHARTERBACK OF
THOSE SEVEN VESSELS**
- (2) ACQUISITION OF A SHIPPING VESSEL
AND**
- (3) ACQUISITION OF VESSELS TO BE CONSTRUCTED**
-

* *For identification purposes only*

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DEFINITIONS

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

- “bareboat charter” means a charter for an agreed period of time during which the shipowner provides only the ship while the charterer provides the crew together with all stores and bunkers and pays all operating costs;
- “Bareboat Charterers” means Pacific Basin Chartering (No.11) Limited, Pacific Basin Chartering (No.12) Limited, Pacific Basin Chartering (No.13) Limited, Pacific Basin Chartering (No.14) Limited, Pacific Basin Chartering (No.15) Limited, Pacific Basin Chartering (No.16) Limited and Pacific Basin Chartering (No.17) Limited, each an indirect wholly-owned subsidiary of the Company and “Bareboat Charterer” means each and any one of them as the context so requires;
- “bareboat charterparty” means the document containing the agreement between both the owner of a ship and the Bareboat Charterer, signed by both, in which are all the terms and conditions such as the period of the charter, the rate of hire, the trading limitations, i.e. geographical limits specified in a charterparty outside which the Bareboat Charterer is not permitted to order the ship and all rights and responsibilities of both parties which are consistent with transactions in the shipping industry;
- “Cape Scott” A 1997 built handysize dry bulk carrier constructed in Japan of 28,747 dwt, named “Cape Scott”. The flag of Cape Scott is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Cape Scott is Nippon Kaiji Kyokai;
- “Cape Spencer” A 1997 built handysize dry bulk carrier constructed in Japan of 28,799 dwt, named “Cape Spencer”. The flag of Cape Spencer is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Cape Spencer is Nippon Kaiji Kyokai;
- “Castle Island” A 1997 built handysize dry bulk carrier constructed in Japan of 28,759 dwt, named “Castle Island”. The flag of Castle Island is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Castle Island is Nippon Kaiji Kyokai;

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“Columbia River”	A 1998 built handysize dry bulk carrier constructed in Japan of 28,527 dwt, named “Columbia River”. The flag of Columbia River is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Columbia River is Nippon Kaiji Kyokai;
“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;
“GMI”	Guangdong Machinery Imp. & Exp. Co., Ltd.;
“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 revenues earned by vessels entered by its members. The IHC Pool is operated by International Handybulk Carriers Management Limited, a wholly-owned subsidiary of the Company;
“JNS”	Jiangmen Nanyang Ship Engineering Co., Ltd.;
“Juniper Beach Acquisition”	means the acquisition of Juniper Beach by Eaglehill Trading Limited, a wholly-owned subsidiary of the Company, from Giant Line Inc. S.A., as further described in our announcement made on 17 June 2005;
“Latest Practicable Date”	means 20 December 2005, 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;

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“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;
“Newbuilding Option Agreement”	means the agreement entered into by Famous Time Group Limited, an indirect wholly-owned subsidiary of the Company, with the Newbuilding Sellers on 8 December 2005 granting to the former the options to enter into two further shipbuilding contracts with the Newbuilding Sellers in respect of constructing and equipping a further two newbuilding vessels for a consideration of US\$21,848,000 (approximately HK\$170,414,400) per vessel to be delivered in May and September 2009, which is exercisable up to six months after the signing of the Shipbuilding Contracts;
“Newbuilding Purchasers”	Lake Stevens Limited, Good Shape Limited, Bright Cove Limited and Future Sea Limited; and a “Newbuilding Purchaser” means each and any one of them;
“Newbuilding Sellers”	GMI and JNS;
“Newbuilding Vessels”	means Vessel A, Vessel B, Vessel C and Vessel D;
“Ocean Bulker MOA”	means the legally binding unconditional Memorandum of Agreement dated 8 December 2005 entered into between Los Halillos Shipping Co., S.A. and Willow Point Limited, an indirect wholly-owned subsidiary of the Company, for the acquisition of Ocean Bulker by Willow Point Limited;
“Ocean Bulker Purchaser”	Willow Point Limited;
“Ocean Bulker Seller”	Los Halillos Shipping Co., S.A.;
“Payment Guarantee”	means the bank guarantee to be provided by each of the Newbuilding Purchasers to the Newbuilding Sellers to guarantee its obligations for the payment of 50% of the purchase price, in a form specified in the Shipbuilding Contract;

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“Pitt Island”	A 1997 built handysize dry bulk carrier constructed in Japan of 28,611 dwt, named “Pitt Island”. The flag of Pitt Island is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Pitt Island is Nippon Kaiji Kyokai;
“Port Pirie”	A 1997 built handysize dry bulk carrier constructed in China of 27,408 dwt, named “Port Pirie”. The flag of Port Pirie is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Port Pirie is Lloyd’s Register;
“Refund Guarantee”	means the guarantee to be issued by the Bank of China Ltd., Guangzhou Branch to each Newbuilding Purchaser to guarantee the repayment of any consideration paid by the Newbuilding Purchaser, which can be called upon should the Shipbuilding Contract be cancelled and/or rescinded by the Newbuilding Purchaser in accordance with its terms and conditions, in a form specified in the Shipbuilding Contract;
“Seven Purchasers”	means Sealate Holding B.V., Chiraz Holding B.V., TRS Delft Zuid B.V., TRS Rode B.V., TRS Voordijkshoorn B.V., Prehniet Beheer B.V. and Rewako Investments B.V. and a “Seven Purchaser” shall mean each and any one of them as the context so requires;
“Seven Sellers”	Cape Scott Limited, Cape Spencer Shipping Limited, Castle Island Shipping Limited, Columbia River Limited, Pitt Island Limited, Wexford Investments Limited and Port Pirie Limited, each an indirect wholly-owned subsidiary of the Company;
“Seven Vessels”	means Cape Scott, Cape Spencer, Castle Island, Columbia River, Pitt Island, Silver Bay and Port Pirie;
“Seven Vessel MOA”	means the legally binding unconditional Memorandum of Agreement dated 7 December 2005 entered into between the Seven Sellers and the Seven Purchasers in respect of the sale of the Seven Vessels;
“Shareholders”	means the shareholders of the Company;
“Shipbuilding Contracts”	means Shipbuilding Contract A, Shipbuilding Contract B, Shipbuilding Contract C and Shipbuilding Contract D; and a “Shipbuilding Contract” means each and any one of them;

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“Shipbuilding Contract A”	means the legally binding Shipbuilding Contract dated 8 December 2005 entered into between Lake Stevens Limited and the Newbuilding Sellers for the acquisition of Vessel A by Lake Stevens Limited;
“Shipbuilding Contract B”	means the legally binding Shipbuilding Contract dated 8 December 2005 entered into between Good Shape Limited and the Newbuilding Sellers for the acquisition of Vessel B by Good Shape Limited;
“Shipbuilding Contract C”	means the legally binding Shipbuilding Contract dated 8 December 2005 entered into between Bright Cove Limited and the Newbuilding Sellers for the acquisition of Vessel C by Bright Cove Limited;
“Shipbuilding Contract D”	means the legally binding Shipbuilding Contract dated 8 December 2005 entered into between Future Sea Limited and the Newbuilding Sellers for the acquisition of Vessel D by Future Sea Limited;
“Silver Bay”	A 1997 built handysize dry bulk carrier constructed in Japan of 26,516 dwt, named “Silver Bay”. The flag of Silver Bay is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Silver Bay is Nippon Kaiji Kyokai;
“Stock Exchange”	means The Stock Exchange of Hong Kong Limited;
“Vessel A”	means a newbuilding handysize dry bulk carrier of approximately 32,000 dwt to be constructed and equipped by the Newbuilding Sellers and is expected to be delivered in January 2008. It is currently expected that Vessel A will be registered upon its delivery under the laws and flag of Hong Kong;
“Vessel B”	means a newbuilding handysize dry bulk carrier of approximately 32,000 dwt to be constructed and equipped by the Newbuilding Sellers and is expected to be delivered in May 2008. It is currently expected that Vessel B will be registered upon its delivery under the laws and flag of Hong Kong;
“Vessel C”	means a newbuilding handysize dry bulk carrier of approximately 32,000 dwt to be constructed and equipped by the Newbuilding Sellers and is expected to be delivered in September 2008. It is currently expected that Vessel C will be registered upon its delivery under the laws and flag of Hong Kong; and

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“Vessel D”

means a newbuilding handysize dry bulk carrier of approximately 32,000 dwt to be constructed and equipped by the Newbuilding Sellers and is expected to be delivered in January 2009. It is currently expected that Vessel D will be registered upon its delivery under the laws and flag of Hong Kong.

LETTER FROM THE BOARD OF DIRECTORS



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
Mark Malcolm Harris
Paul Charles Over

Registered Office:

Clarendon House
2 Church Street
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Non-Executive Directors:

Lee Kwok Yin, Simon
Brian Paul Friedman

Hong Kong Principal Office:

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

Independent Non-Executive Directors:

Robert Charles Nicholson
Patrick Blackwell Paul
The Earl of Cromer

23 December 2005

To the Shareholders

Dear Sir or Madam

DISCLOSEABLE TRANSACTIONS:

**(1) SALE OF SEVEN VESSELS AND BAREBOAT CHARTER BACK
OF THOSE SEVEN VESSELS**

INTRODUCTION

On 7 December 2005, the Directors announced that the Seven Sellers, each being an indirect wholly-owned subsidiary of the Company entered into the Seven Vessel MOA with the Seven Purchasers (each being owned by the same ultimate beneficial owner), to sell to them the Seven Vessels as described herein for a consideration of US\$118,000,000 (approximately HK\$920,400,000). Principal terms of the Seven Vessel MOA are set out below in this circular.

* *For identification purposes only*

LETTER FROM THE BOARD OF DIRECTORS

The Company intends to use the proceeds from the sale of the Seven Vessels to repay debt on those vessels and to prepay other bank debts. Following the prepayment, the Company expects to have no outstanding conventional debt secured on its remaining 16 owned vessels.

Simultaneously with the signing of the Seven Vessel MOA, the Bareboat Charterers, each being an indirect wholly-owned subsidiary of the Company, entered into seven bareboat charterparties as described herein with the Seven Purchasers to charter the Seven Vessels back into the Company's chartered-in fleet at agreed charter rates for a fixed period of 10 years.

Under the seven bareboat charterparties each of the Bareboat Charterers has the option to individually re-purchase each of the Seven Vessels at any time with three months notice during each bareboat charterparty. The purchase option prices will be reduced proportionally for the period of each bareboat charterparty completed. As an alternative to the purchase option, at the end of the charter period the Company has the option to enter into a renewal lease period for each vessel individually for a term and at a rate to be determined and based on market and financial considerations at such time. The Company will comply with the relevant requirements under the Listing Rules prevailing if it exercises any of the purchase or renewal options. Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of any such purchase or renewal option; or (2) the Company notifying the relevant Seven Purchaser that a purchase or renewal option will not be exercised.

The sale of the Seven Vessels contemplated under the Seven Vessel MOA and the bareboat charter back of those Seven Vessels 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 sale and bareboat charter back of the Seven Vessels.

THE LEGALLY BINDING SEVEN VESSEL MOA

Date : 7 December 2005

Parties : Seven : Sealate Holding B.V. who shall purchase Cape Scott;
Purchasers Chiraz Holding B.V. who shall purchase Cape Spencer;
TRs Delft Zuid B.V. who shall purchase Castle Island;
TRs Rode B.V. who shall purchase Columbia River;
TRs Voordijkshoorn B.V. who shall purchase Pitt Island;
Prehniet Beheer B.V. who shall purchase Silver Bay; and
Rewako Investments B.V. who shall purchase Port Pirie,

LETTER FROM THE BOARD OF DIRECTORS

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 Seven 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, (i) the principal business activity of the Seven Purchasers will be the owning of the Seven Vessels and the principal business activity of the ultimate beneficial owner of the Seven Purchasers is the owning and financing of shipping vessels; and (ii) save for the relationships arising from the Seven Vessel MOA, there are no other relationships amongst the Seven Purchasers and their ultimate beneficial owner and other vendors, purchasers and ship-owners and their respective ultimate beneficial owners with whom the Company has entered into transactions (including the other discloseable transactions disclosed in this circular) to acquire, dispose of, or charter in vessels during the past 12 months before the date of the Seven Vessel MOA.

Seven Sellers : Cape Scott Limited who shall sell Cape Scott;
Cape Spencer Shipping Limited who shall sell Cape Spencer;
Castle Island Shipping Limited who shall sell Castle Island;
Columbia River Limited who shall sell Columbia River;
Pitt Island Limited who shall sell Pitt Island;
Wexford Investments Limited who shall sell Silver Bay;
and
Port Pirie Limited who shall sell Port Pirie,
each an indirect wholly-owned subsidiary of the Company.

LETTER FROM THE BOARD OF DIRECTORS

- Assets to be sold : Cape Scott : A 1997 built handysize dry bulk carrier constructed in Japan of 28,747 dwt, named “Cape Scott”. The flag of Cape Scott is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Cape Scott is Nippon Kaiji Kyokai;
- Cape Spencer : A 1997 built handysize dry bulk carrier constructed in Japan of 28,799 dwt, named “Cape Spencer”. The flag of Cape Spencer is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Cape Spencer is Nippon Kaiji Kyokai;
- Castle Island : A 1997 built handysize dry bulk carrier constructed in Japan of 28,759 dwt, named “Castle Island”. The flag of Castle Island is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Castle Island is Nippon Kaiji Kyokai;
- Columbia River : A 1998 built handysize dry bulk carrier constructed in Japan of 28,527 dwt, named “Columbia River”. The flag of Columbia River is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Columbia River is Nippon Kaiji Kyokai;
- Pitt Island : A 1997 built handysize dry bulk carrier constructed in Japan of 28,611 dwt, named “Pitt Island”. The flag Pitt Island is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Pitt Island is Nippon Kaiji Kyokai;
- Silver Bay : A 1997 built handysize dry bulk carrier constructed in Japan of 26,516 dwt, named “Silver Bay”. The flag of Silver Bay is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Silver Bay is Nippon Kaiji Kyokai; and
- Port Pirie : A 1997 built handysize dry bulk carrier constructed in China of 27,408 dwt, named “Port Pirie”. The flag of Port Pirie is presently Hong Kong and the place of registration is Hong Kong. The Classification Society of Port Pirie is Lloyd’s Register,

collectively known as the Seven Vessels.

LETTER FROM THE BOARD OF DIRECTORS

Net Profits attributable to the Seven Vessels : The Company acquired Cape Scott on 14 December 2004, Cape Spencer on 6 September 2004, Castle Island on 14 August 2004, Columbia River on 15 October 2004, Pitt Island on 11 January 2005, Silver Bay on 25 November 2004 and Port Pirie on 1 September 2004.

The net profits attributable to the Seven Vessels for the financial year ended 31 December 2004 (audited) in aggregate amounted to US\$4,954,000 (approximately HK\$38,641,200). The net profit/loss attributable to each of the Seven Vessels during the period from the date of its acquisition to 31 December 2004 was as follows: (i) Cape Scott: net loss of US\$18,000; (ii) Cape Spencer: net profit of US\$1,296,000; (iii) Castle Island: net profit of US\$1,448,000; (iv) Columbia River: net profit of US\$636,000; (v) Pitt Island: nil (acquired in 2005); (vi) Silver Bay: net profit of US\$347,000; and (vii) Port Pirie: net profit of US\$1,245,000.

The net profits attributable to the Seven Vessels for the six months ended 30 June 2005 (unaudited) were US\$6,818,000 (approximately HK\$53,180,400). There is no taxation on the net profits attributable to the Seven Vessels.

Revenues attributable to the Seven Vessels : The revenues attributable to the Seven Vessels for the financial year ended 31 December 2004 (audited) in aggregate amounted to US\$8,487,000 (approximately HK\$66,198,600). The revenue attributable to each of the Seven Vessels during the period from the date of its acquisition to 31 December 2004 was as follows: (i) Cape Scott: US\$63,000; (ii) Cape Spencer: US\$2,154,000; (iii) Castle Island: US\$2,481,000; (iv) Columbia River: US\$858,000; (v) Pitt Island: nil (acquired in 2005); (vi) Silver Bay: US\$713,000; and (vii) Port Pirie: US\$2,218,000.

The revenues attributable to the Seven Vessels for the six months ended 30 June 2005 (unaudited) were US\$18,683,000 (approximately HK\$145,727,400).

Value of the Seven Vessels : The carrying value of the Seven Vessels in the Company's accounts as at 9 December 2005 (being the date of completion and delivery of the Seven Vessels to the Seven Purchasers) was estimated to be US\$117,980,000 (approximately HK\$920,244,000).

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Consideration : US\$118,000,000 (approximately HK\$920,400,000) (a lump sum figure for the Seven Vessels and there is no allocation of the consideration to individual vessels in the Seven Vessel MOA), which was determined by reference to other sale and charter back transactions entered into by the Company with different and independent counterparties 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 sale and charter backs by third party vendors of vessels of the exact size or age of the Seven Vessels from which to make a direct comparison. In addition, no third party valuation has been performed on any of the Seven Vessels.

The Directors believe that the 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.

Payment terms : The consideration for the sale of the Seven Vessels was US\$118,000,000 (approximately HK\$920,400,000), which was received upon delivery of the Seven Vessels.

Completion : The Seven Vessels were delivered to the Seven Purchasers on 9 December 2005.

Use of proceeds : The application of the sale proceeds included the repayment of bank borrowings on the Seven Vessels (9% or US\$10,350,000, approximately HK\$80,730,000), the prepayment of all other bank borrowings (53% or US\$62,949,000, approximately HK\$491,002,200) and a contribution to the current assets of the Company which will become the Company's general working capital (38% or US\$44,701,000, approximately HK\$348,667,800). This means that the Company has no outstanding conventional debt secured on its remaining 16 owned vessels. The sum of the above repayment and prepayment of long-term bank borrowings included US\$2,408,000 (approximately HK\$18,782,400) being the current portion of these borrowings.

THE BAREBOAT CHARTERPARTIES

Date of bareboat charterparties : 7 December 2005 (with charters commencing upon delivery of the Seven Vessels to their respective Seven Purchaser)

LETTER FROM THE BOARD OF DIRECTORS

Parties : Owners : Sealate Holding B.V. chartered out Cape Scott, Chiraz Holding B.V. chartered out Cape Spencer, TRS Delft Zuid B.V. chartered out Castle Island, TRS Rode B.V. chartered out Columbia River, TRS Voordijkshoorn B.V chartered out Pitt Island, Prehniet Beheer B.V. chartered out Silver Bay and Rewako Investments Limited B.V. chartered out Port Pirie, 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 Seven 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 Seven Purchasers will be the owning of the Seven Vessels and the principal business activity of the ultimate beneficial owner of the Seven Purchasers is the owning and financing of shipping vessels.

Bareboat Charterers : Pacific Basin Chartering (No.11) Limited chartered in Cape Scott, Pacific Basin Chartering (No.12) Limited chartered in Cape Spencer, Pacific Basin Chartering (No.13) Limited chartered in Castle Island, Pacific Basin Chartering (No.14) Limited chartered in Columbia River, Pacific Basin Chartering (No.15) Limited chartered in Pitt Island, Pacific Basin Chartering (No.16) Limited chartered in Silver Bay and Pacific Basin Chartering (No.17) Limited chartered in Port Pirie, each an indirect wholly-owned subsidiary of the Company.

Assets to be chartered in : The Seven Vessels.

The Seven Purchasers, as the new owners of the Seven Vessels, do not have the right to change the flag, name or registration of the vessels.

Guarantee : In connection with the bareboat charter back of the Seven Vessels, PB Vessels Holding Limited, a wholly-owned subsidiary of the Company, has entered into a guarantee with each of the Seven Purchasers to guarantee the performance of each of the Bareboat Charterers of all of their obligations, duties and liabilities (including payment of outstanding charter hire payments) under the bareboat charterparties.

LETTER FROM THE BOARD OF DIRECTORS

Period and payments under the bareboat charterparties : The Bareboat Charterers shall pay the Seven Purchasers approximately US\$3,548,000 (approximately HK\$27,674,400) in charter hire payments quarterly (for the Seven Vessels in total) during the period of the bareboat charterparties which is for a fixed period of 10 years from the date of delivery and completion of the sale of the Seven Vessels, being 9 December 2005. The charter hire payments are lump sum figures with no allocation to individual vessels in the charterparty. Such payments shall be satisfied from the freight and charter-hire revenues generated by the Group. The difference between the aggregate lease payments of approximately US\$141,920,000 (approximately HK\$1,106,976,000) and the consideration for the sale of the Seven Vessels in the amount of US\$118,000,000 (approximately HK\$920,400,000) will be treated as finance costs in the accounts of the Company.

The bareboat charter rates were determined after arm's length negotiation, on normal commercial terms, and by reference to the consideration paid by the Seven Purchasers for the Seven Vessels.

There is no early termination clause in the bareboat charterparties. However, under the seven bareboat charterparties each of the Bareboat Charterers has the option (which is not transferable) to individually repurchase the relevant vessel 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 Seven Purchasers under the Seven Vessel MOA) less the principal repaid through the bareboat charter up to until the date the purchase option is exercised.

Although the Seven Vessel MOA does not specify the individual sales price for the Seven Vessels, the repurchase prices for each of the vessels at different points in time are pre-determined and set out in a schedule to the Seven Vessel MOA. The aggregate purchase option price for the Seven Vessels at the end of the 10 year bareboat charterparties is US\$31,000,000 (approximately HK\$241,800,000) (which is the sales consideration minus the principal repaid during the 10 year charter period).

As an alternative to the purchase option stated above, at the end of the charter period the Company has the option to enter into a renewal lease period for each vessel individually for a term and at a rate to be determined and based on market and financial considerations at such time.

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The Company will comply with the relevant requirements under the Listing Rules prevailing if it exercises any of the purchase or renewal options.

Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of any such purchase or renewal option; or (2) the Company notifying the relevant Seven Purchaser that a purchase or renewal option will not be exercised.

Accounting treatment : In accordance with Hong Kong Accounting Standard No. 17 “Leases”, finance lease accounting has been adopted for the transaction which means (i) the balance sheet will continue to show the net carrying value of the Seven Vessels; (ii) the fixed assets note to the Company’s accounts will disclose that the Seven Vessels should be classified as “leased assets” rather than “fixed assets”, (iii) the current and long-term liabilities in aggregate will increase by US\$44,701,000 (approximately HK\$348,667,800), being the amount of the finance lease obligations of US\$118,000,000 (approximately HK\$920,400,000) less the amount of bank borrowings (9% or US\$10,350,000, approximately HK\$80,730,000) secured on the Seven Vessels and all other outstanding bank borrowings (53% or US\$62,949,000, approximately HK\$491,002,200) to be repaid and prepaid using the sale proceeds and (iv) the current assets will increase by US\$44,701,000 (approximately HK\$348,667,800) due to the contribution to the general working capital from the remaining portion (38%) of the sale proceeds.

The Seven Vessels will continue 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 Seven Vessels were owned by the Company. The charter hire payments of approximately US\$3,548,000 (approximately HK\$27,674,400) every quarter arising under the bareboat charterparties 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”.

Financial effects of the sale and bareboat charter back:

It has been confirmed with the auditors of the Company that as a result of using finance lease accounting there is no recognition of any gain or loss on the disposal of the Seven Vessels.

The application of the sale proceeds of US\$118,000,000 (approximately HK\$920,400,000) included the repayment of bank borrowings on the Seven Vessels (9%), the prepayment of all other outstanding bank borrowings (53%) and a contribution to the

LETTER FROM THE BOARD OF DIRECTORS

current assets (38%). The bank borrowings repaid or prepaid comprised US\$73,299,000 (approximately HK\$571,732,200) including current portion of US\$2,408,000 (approximately HK\$18,782,400) and long-term portion of US\$70,891,000 (approximately HK\$552,949,800). Increase in finance lease obligations of US\$118,000,000 (approximately HK\$920,400,000) represents the current portion of US\$6,300,000 (approximately HK\$49,140,000) and long-term portion of US\$111,700,000 (approximately HK\$871,260,000). The Company's current and long-term liabilities in aggregate increased by US\$44,701,000 (approximately HK\$348,667,800), being the amount of the finance lease obligations of US\$118,000,000 (approximately HK\$920,400,000) less the amount of bank borrowings (US\$10,350,000, approximately HK\$80,730,000 or 9%) secured on the Seven Vessels and other bank borrowings (US\$62,949,000, approximately HK\$491,002,200 or 53%) repaid using the sales proceeds.

The Company's general working capital also increased by US\$40,809,000 (approximately HK\$318,310,200), which represents the increase in current assets by the remaining portion (38%) of the sale proceeds of US\$44,701,000 (approximately HK\$348,667,800), less the increase in the current portion of long-term liabilities of US\$3,892,000 (approximately HK\$30,357,600).

There is not expected to be any material impact on the Company's results of operations upon entering into the Seven Vessel MOA and the bareboat charterparties for the Seven Vessels or by adopting finance lease accounting as compared with immediately prior to the entering of the Seven Vessel MOA and the bareboat charterparties for the Seven Vessels when the Seven Vessels were owned by the Company.

The sale and bareboat charter back of the Seven Vessels will not have any effect upon the number of revenue days nor have a significant effect upon the earnings of the Company. The Company will continue to be responsible for the technical operation of the Seven Vessels and will continue to incur both the direct operating costs and the new servicing costs, calculated in accordance with Hong Kong Accounting Standard No. 17, of the financing of the Seven Vessels.

REASONS FOR THE SALE AND BAREBOAT CHARTER BACK OF THE SEVEN 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, the Company seeks to offer its customers a strong, reliable service with a high degree of scheduling flexibility whilst maintaining the Company's operational efficiency. The transactions outlined above are consistent with this strategy by generating cash which can later be used to expand the Company's fleet.

Furthermore, the transactions outlined above enable the Company to repay bank borrowings on the Seven Vessels (US\$10,350,000, approximately HK\$80,730,000), to prepay other bank borrowings (US\$62,949,000, approximately HK\$491,002,200), to generate current assets (US\$44,701,000, approximately HK\$348,667,800) and to retain commercial and

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operational control over the Seven Vessels. The prepayment of other bank borrowings which are held under secured revolving facilities, results in an increase to undrawn facilities of US\$50,512,000 (approximately HK\$393,993,600) which can be re-utilised by the Company at such time as the Company finds further investment opportunities to expand its business. The Directors believe that the terms of the Seven Vessel MOA and the bareboat charterparties of the Seven Vessels, 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 are in the interests of the Company and the Shareholders as a whole.

(2) ACQUISITION OF A SHIPPING VESSEL

INTRODUCTION

On 8 December 2005, the Directors announced that an indirect wholly-owned subsidiary of the Company entered into the Ocean Bulker MOA with Los Halillos Shipping Co., S.A., to acquire from it a 2001 built, 28,492 dwt handysize dry bulk carrier named Ocean Bulker as described herein for a consideration of US\$22,000,000 (approximately HK\$171,600,000). Ocean Bulker is expected to be delivered during the second half of 2006. Principal terms of the Ocean Bulker MOA are set out below in this circular.

The ultimate beneficial owner of Los Halillos Shipping Co., S.A. is the same as that of Giant Line Inc. S.A. from whom the Company purchased Juniper Beach as described in our announcement made on 17 June 2005 for a consideration of US\$27,800,000 (approximately HK\$216,840,000). Accordingly, the purchase contemplated under the Ocean Bulker MOA, only when aggregated with this previously announced discloseable transaction, constitutes 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 Ocean Bulker.

THE LEGALLY BINDING OCEAN BULKER MOA

Date : 8 December 2005

Parties : Ocean Bulker Purchaser : Willow Point Limited, an indirect wholly-owned subsidiary of the Company.

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Ocean Bulker Seller : Los Halillos Shipping Co., 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, having made all reasonable enquiry, the principal business activity of the Ocean Bulker Seller is the owning of Ocean Bulker and the principal business activity of the ultimate beneficial owner of the Ocean Bulker Seller is the owning and operating of shipping vessels.

Asset to be acquired : A handysize dry bulk carrier constructed in Japan of approximately 28,492 dwt, named "Ocean Bulker". It was constructed in 2001 and delivered into use in May 2001. The flag of Ocean Bulker is currently Panama and the place of registration is currently Panama. The Company intends to change the name of Ocean Bulker to "Willow Point" and to change the flag and place of registration of Ocean Bulker to Hong Kong and for Ocean Bulker to be operated by the Company from time of delivery.

The Company, having made all reasonable enquiry, does not have access to information regarding the revenue or the profits before and after tax of Ocean Bulker for the years ended 31 December 2003 and 2004.

Consideration : US\$22,000,000 (approximately HK\$171,600,000), 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 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 size of Ocean Bulker from which to make a direct comparison. In addition, no third party valuation has been performed on Ocean Bulker.

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.

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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 Ocean Bulker. 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 Ocean Bulker will be funded from internal resources.

Payment terms : The consideration for the acquisition of Ocean Bulker shall be payable as follows:

- 10% of the purchase price was paid at the time of the signing of the Ocean Bulker MOA; and
- the balance of the purchase price shall be paid upon delivery.

Delivery : Pursuant to the Ocean Bulker MOA, the latest date for delivery is 30 September 2006 unless the parties otherwise agree. The Directors currently expect that delivery of Ocean Bulker will take place during the second half of 2006. The Company will make a further announcement if delivery does not take place by 30 September 2006.

Financial effects of the acquisition of Ocean Bulker

Following the completion and delivery of Ocean Bulker, the Group's fixed assets (owned vessels) will increase by the amount of the consideration of US\$22,000,000 (approximately HK\$171,600,000). Current assets will decrease by US\$8,800,000 (approximately HK\$78,288,600), being 40% of the purchase price funded from internal cash resources. It is intended that the remaining 60% of the purchase price will be satisfied from new bank borrowings. Hence, if the Company successfully obtains such a bank facility, long-term liabilities will increase by US\$11,963,000 (approximately HK\$93,311,400) and current liabilities will increase by US\$1,237,000 (approximately HK\$9,648,600). Should such financing not be arranged, the entire purchase price of Ocean Bulker will be funded from internal cash resources, thereby reducing current assets by a total of US\$22,000,000 (approximately HK\$171,600,000).

Upon delivery of Ocean Bulker, the Group's vessel revenue days are anticipated to increase by 90 days in 2006 and 360 days in 2007 and are expected to enhance earnings accordingly. The Company's profit and loss account will be charged with the cost of ownership, comprising operational expenses, depreciation, interest and directly attributable overheads.

REASONS FOR THE OCEAN BULKER ACQUISITION

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

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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, as the Company has expanded its own fleet, and is in line with current customer requirements.

The expected benefit following the acquisition of Ocean Bulker will be that the Company will have secured an additional vessel for its fleet, giving an anticipated increase in revenue days of 90 days in 2006 and 360 days in 2007 and this is expected to enhance earnings accordingly.

The Directors believe that the terms of the Ocean Bulker MOA, 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 are in the interests of the Company and the Shareholders as a whole.

AGGREGATION

The ultimate beneficial owner of the Ocean Bulker Seller is the same as that of Giant Line Inc. S.A. from whom the Company purchased Juniper Beach as described in our announcement made on 17 June 2005 for a consideration of US\$27,800,000 (approximately HK\$216,840,000) (the "Juniper Beach Acquisition"). Juniper Beach is a newbuilding handysize dry bulk carrier of approximately 28,100 dwt, to be constructed in Japan and is expected to be delivered in June 2007.

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, save for the relationships disclosed in this circular, there are no other relationships amongst the Ocean Bulker Seller and its ultimate beneficial owner and other vendors, purchasers and ship-owners and their respective ultimate beneficial owners with whom the Company has entered into transactions (including the other discloseable transactions as disclosed in this circular) to acquire, dispose of, or charter in vessels during the 12 months prior to the date of the Ocean Bulker MOA.

Accordingly, the transaction contemplated under the Ocean Bulker MOA, only when aggregated with the Juniper Beach Acquisition, constitutes a discloseable transaction of the Company under the Listing Rules.

(3) ACQUISITION OF VESSELS TO BE CONSTRUCTED

INTRODUCTION

On 8 December 2005, the Directors announced that four indirect wholly-owned subsidiaries of the Company entered into the Shipbuilding Contracts with Guangdong Machinery Imp. & Exp. Co., Ltd. and Jiangmen Nanyang Ship Engineering Co., Ltd. to acquire from them, subject to the satisfaction of certain conditions, a total of four newbuilding vessels for a consideration of US\$21,977,000 (approximately HK\$171,420,600) per vessel. The total consideration for the Newbuilding Vessels shall be US\$87,908,000 (approximately HK\$685,682,400) and is considered by the Directors to be attractive. The

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Newbuilding Vessels shall be constructed and equipped by the Newbuilding Sellers at the shipyard of Jiangmen Nanyang Ship Engineering Co., Ltd. in Guangdong Province, China and are expected to be delivered in (i) January 2008, (ii) May 2008, (iii) September 2008 and (iv) January 2009. Principal terms of the Shipbuilding Contracts are set out below in this circular.

The Directors believe that securing the Shipbuilding Contracts is a significant achievement for the Company in view of the contract prices achieved and the early delivery of the vessels which compares favourably with the availability of similar vessels from shipyards elsewhere.

Simultaneously with the signing of the Shipbuilding Contracts, an indirect wholly-owned subsidiary of the Company has entered into the Newbuilding Option Agreement with the Newbuilding Sellers to enter into a further two shipbuilding contracts in respect of constructing and equipping a further two newbuilding vessels for a consideration of US\$21,848,000 (approximately HK\$170,414,400) per vessel to be delivered in May and September 2009.

The Company will comply with the relevant requirements under the Listing Rules prevailing if it exercises the options under the Newbuilding Option Agreement. Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of the Newbuilding Option Agreement; or (2) the Company notifying the Newbuilding Sellers that the Newbuilding Option Agreement will not be exercised.

The transactions contemplated under the Shipbuilding Contracts 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 acquisition of the Newbuilding Vessels.

THE SHIPBUILDING CONTRACTS

The Shipbuilding Contracts are of identical terms and conditions and are described below:

Date : 8 December 2005

Parties : Newbuilding : Lake Stevens Limited for Shipbuilding Contract A;
Purchasers

Good Shape Limited for Shipbuilding Contract B;

Bright Cove Limited for Shipbuilding Contract C; and

Future Sea Limited for Shipbuilding Contract D;

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

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Newbuilding : Guangdong Machinery Imp. & Exp. Co., Ltd. (“GMI”) and Jiangmen Nanyang Ship Engineering Co., Ltd. (“JNS”), acting in a joint capacity, each of which, together with their ultimate beneficial owners, to the best of the Directors’ knowledge, information and belief having made all reasonable enquiry, 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 activity of GMI is the import and export of machineries and the principal business activity of JNS is the construction of shipping vessels.

To the best of the Directors’ knowledge, information and belief, having made all reasonable enquiry, save for the transactions disclosed in this circular, there are no other relationships amongst the Newbuilding Sellers and their ultimate beneficial owners and other vendors, purchasers and ship-owners and their respective ultimate beneficial owners with whom the Company has entered into transactions (including the other discloseable transactions disclosed in this circular) to acquire, dispose of, or charter in vessels during the 12 months prior to the date of the Shipbuilding Contracts.

- Assets to be acquired : In respect of Shipbuilding Contract A, a handysize dry bulk carrier of approximately 32,000 dwt (“Vessel A”);
- in respect of Shipbuilding Contract B, a handysize dry bulk carrier of approximately 32,000 dwt (“Vessel B”);
- in respect of Shipbuilding Contract C, a handysize dry bulk carrier of approximately 32,000 dwt (“Vessel C”); and
- in respect of Shipbuilding Contract D, a handysize dry bulk carrier of approximately 32,000 dwt (“Vessel D”).
- Consideration : Vessel A: US\$21,977,000 (approximately HK\$171,420,600);
- Vessel B: US\$21,977,000 (approximately HK\$171,420,600);
- Vessel C: US\$21,977,000 (approximately HK\$171,420,600); and
- Vessel D: US\$21,977,000 (approximately HK\$171,420,600).

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The total consideration for the Newbuilding Vessels is US\$87,908,000 (approximately HK\$685,682,400). The consideration is considered by the Directors to be attractive, and 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 Vessels from which to make a direct comparison. In addition, no third party valuation has been performed on the Newbuilding 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 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 for payment of the Newbuilding Vessels. 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 Vessels will be funded from internal resources.

Payment terms : The consideration for the acquisition of the Newbuilding Vessels shall be payable as follows:

20% on or before the date the Shipbuilding Contracts become effective (as described below) with the balance during year 2006 to 2009. It is currently expected that the amount of payment to be made by the Company for the Newbuilding Vessels will be US\$18,212,000 (approximately HK\$142,053,600) in the financial year 2005, US\$11,979,000 (approximately HK\$93,436,200) in the financial year 2006, US\$21,780,000 (approximately HK\$169,884,000) in the financial year 2007, US\$29,403,000 (approximately HK\$229,343,400) in the financial year 2008 and US\$6,534,000 (approximately HK\$50,965,200) in the financial year 2009, being US\$87,908,000 (approximately HK\$685,682,400) in total.

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Conditions Precedent : The Shipbuilding Contracts shall become effective upon fulfilment of all the following conditions:

- (i) Receipt by the Newbuilding Sellers of 20% of the purchase price;
- (ii) Receipt by the Newbuilding Sellers of the Payment Guarantee; and
- (iii) Receipt by the Newbuilding Purchasers of the Refund Guarantee;

If, due to whatever reason, any of the above conditions fail to be fulfilled within two months after the date of the Shipbuilding Contracts, i.e. by 8 February 2006, then the Shipbuilding Contracts shall be null and void and have no effect whatsoever. The Company will make a further announcement should the Shipbuilding Contracts become null and void due to the non-fulfilment of any of the above conditions precedent.

Payment Guarantee : Each of the Newbuilding Purchasers shall provide a bank guarantee (one for each Shipbuilding Contract) to the Newbuilding Sellers to guarantee the relevant Newbuilding Purchasers' obligations for the payment of 50% of the purchase price (the "Payment Guarantee"). The Payment Guarantee can be called upon should the Newbuilding Purchasers fail to effect payment of the relevant consideration when it falls due.

Further Guarantee : In addition to the Payment Guarantee, in connection with the purchase of the Newbuilding Vessels, PB Vessels Holding Limited, a wholly-owned subsidiary of the Company, has entered into a guarantee with the Newbuilding Sellers to guarantee the performance of each of the Newbuilding Purchasers of all of their obligations, duties and liabilities under the Shipbuilding Contracts.

Refund Guarantee : The Newbuilding Sellers shall provide a bank guarantee (one for each Shipbuilding Contract) to be issued by the Bank of China Ltd., Guangzhou Branch to each of the Newbuilding Purchasers to guarantee the repayment of any consideration paid (the "Refund Guarantee"). The Refund Guarantee can be called upon should any Shipbuilding Contract be cancelled and/or rescinded by the Newbuilding Purchaser in accordance with its terms and conditions.

Circumstances that the Newbuilding Purchaser will be entitled to cancel and/or rescind the Shipbuilding Contract include, inter alia, (i) delay in delivery; (ii) deficiency in speed of the Newbuilding Vessels; (iii) excessive fuel consumption and (iv) deficiency in actual deadweight, in excess of the allowed limit.

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Completion and Delivery : The Newbuilding Vessels will be constructed and equipped by the Newbuilding Sellers and the Directors currently expect that, subject to any extensions that may be agreed between the Newbuilding Sellers and the Newbuilding Purchasers, completion and delivery of the Newbuilding Vessels will take place in:

Vessel A: January 2008;
Vessel B: May 2008;
Vessel C: September 2008; and
Vessel D: January 2009.

It is currently expected that they will be registered upon their delivery under the laws and flag of Hong Kong and will be operated by the Company.

THE NEWBUILDING OPTION AGREEMENT

Famous Time Group Limited, an indirect wholly-owned subsidiary of the Company, has entered into the Newbuilding Option Agreement, exercisable at the discretion of the Company up to six months after the signing of the Shipbuilding Contracts, to enter into two further shipbuilding contracts with the Newbuilding Sellers in respect of constructing and equipping a further two newbuilding vessels (approximately 32,000 dwt each) for a consideration of US\$21,848,000 (approximately HK\$170,414,400) per vessel (the "Newbuilding Option Agreement"), to be constructed in the shipyard of JNS in Guangdong Province, China and to be delivered in May and September 2009. The Newbuilding Option Agreement is not transferable and no premium is payable by the Group thereunder. In addition, the Newbuilding Option Agreement is subject to the Bank of China Ltd. approving the issue of refund guarantees for such newbuilding vessels, with similar terms as the Refund Guarantee, which shall guarantee the repayment of any consideration paid by the Company.

The Company will comply with the relevant requirements under the Listing Rules prevailing if it exercises the options under the Newbuilding Option Agreement. Furthermore, the Company shall make an announcement as soon as reasonably practicable, upon the earlier of (1) the expiry of the Newbuilding Option Agreement; or (2) the Company notifying the Newbuilding Sellers that the Newbuilding Option Agreement will not be exercised.

Financial effects of the acquisition of the Newbuilding Vessels

Following the completion and delivery of the Newbuilding Vessels, the Group's fixed assets (owned vessels) will increase by the amount of the aggregate consideration of US\$87,908,000 (approximately HK\$685,682,400). Current assets will decrease by US\$35,163,000 (approximately HK\$274,271,400), being 40% of the purchase price funded from internal cash resources. It is intended that the remaining 60% of the purchase price will be satisfied from new bank borrowings. Hence, if the Company successfully obtains such a bank facility, long-term liabilities will increase by US\$47,800,000 (approximately HK\$372,840,000) and current liabilities will increase by US\$4,945,000 (approximately

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HK\$38,571,000). Should such financing not be arranged, the entire purchase price of the Newbuilding Vessels will be funded from internal cash resources, thereby reducing current assets by a total of US\$87,908,000 (approximately HK\$685,682,400).

The Group's fixed assets will further increase by a total of US\$43,696,000 (approximately HK\$340,828,800) if the Company decided to exercise the Newbuilding Option Agreement.

Upon delivery of the Newbuilding Vessels, the Group's vessel revenue days are anticipated to increase by an expected 360 days per vessel per year and are expected to enhance earnings accordingly. The Company's profit and loss account will be charged with the cost of ownership, comprising operational expenses, depreciation, interest and directly attributable overheads.

REASON FOR THE ACQUISITION OF THE NEWBUILDING 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 transactions outlined above are consistent with this strategy.

The expected benefit following the acquisition of the Newbuilding Vessels will be that the Company will have secured an additional four vessels for its fleet, giving an anticipated increase in annual revenue days of approximately 360 days per vessel and this is expected to enhance earnings accordingly.

The Directors believe that securing the Shipbuilding Contracts is a significant achievement for the Company in view of the contract prices achieved and the early delivery of the vessels which compares favourably with the availability of similar vessels from shipyards elsewhere. They believe that the terms of the Shipbuilding Contracts are on normal commercial terms and are fair and reasonable so far as the Company and the Shareholders are concerned, and are in the interests of the Company and the Shareholders as a whole.

OVERALL IMPACT ON THE GROUP'S ASSETS AND LIABILITIES AND EARNINGS

Following the completion of the transactions under the Seven Vessel MOA, the Ocean Bulker MOA and the Shipbuilding Contracts, the Group's fixed assets will increase by US\$109,908,000 (approximately HK\$857,282,400). Long-term liabilities will decrease by US\$11,128,000 (approximately HK\$86,798,400), which is attributable to the long-term portion of bank borrowings secured on the Seven Vessels and other bank borrowings repaid and prepaid, partly netted off by the long-term portion of the new bank borrowings to be drawn down on vessel purchases. Current liabilities will increase by US\$3,774,000 (approximately HK\$29,437,200), representing the current portion of the long-term bank

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borrowings to be drawn down on vessel purchases, partly netted off by the repayment and prepayment of the current portion of bank borrowings on the sale of the Seven Vessels. Finance lease obligations will increase by US\$118,000,000 (approximately HK\$920,400,000), of which US\$6,300,000 (approximately HK\$49,140,000) will be repayable within one year. Current assets will increase by US\$738,000 (approximately HK\$5,756,400), which is attributable to the cash generated from the sale of the Seven Vessels, partly netted off by the consideration on vessel purchases settled out of our internal cash resources. The prepayment of other bank borrowings which are held under secured revolving facilities, results in an increase to undrawn facilities of US\$50,512,000 (approximately HK\$393,993,600) which can be re-utilised by the Company at such time as the Company finds further investment opportunities to expand its business.

The bareboat charter back transaction under the Seven MOA will be accounted for as finance leases in accordance with the Hong Kong Accounting Standard No.17 "Leases". The charter-hire payments of approximately US\$3,548,000 (approximately HK\$27,674,400) every quarter 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 addition, the acquisitions of Ocean Bulker and the Newbuilding Vessels are anticipated to give an additional of 360 revenue days per vessel per year and are expected to enhance earnings accordingly. The sale and bareboat charter back transactions in relation to the Seven Vessels, did not and will not have any effect upon the number of revenue days or earnings of the Company during the charter periods. As a result of the bareboat charter back of the Seven Vessels, the Company will continue to be responsible for their operations and will continue to incur both the direct operating costs (including depreciation costs) and the servicing costs of financing of the Seven Vessels.

THE FLEET

Subsequent to the completion of the transactions disclosed in this circular, the fleet will comprise 51 vessels (1,526,898 dwt), including 17 owned vessels (497,207 dwt), 30 chartered-in vessels (922,520 dwt) and four managed vessels (107,171 dwt).

Following the signing of the Shipbuilding Contracts as herein disclosed, the Company shall have increased the number of newbuilding vessels on order from six to ten, one of which is scheduled to deliver in April 2006, two in November 2006, one in June 2007, one in August 2007, one in December 2007, one in January 2008 (Vessel A), one in May 2008 (Vessel B), one in September 2008 (Vessel C) and one in January 2009 (Vessel D). Six of these newbuildings (188,100 dwt) will enter into the owned fleet (including the Newbuilding Vessels) and four will enter into the chartered-in fleet (116,200 dwt).

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. All of the vessels, with the exception of the two handymax vessels (107,194 dwt in aggregate), are employed in the IHC Pool. The handymax vessels are employed on long-term time charters.

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NO OTHER RELATIONSHIP BETWEEN VENDORS AND PURCHASERS

To the best of the Directors' knowledge, information and belief, having made all reasonable enquiry, save for the relationships disclosed in this circular, there are no other relationships amongst the vendors and purchasers and their ultimate beneficial owners as referred to in this circular and other vendors, purchasers and ship-owners and their respective ultimate beneficial owners with whom the Company has entered into transactions to acquire, dispose of, or charter in vessels during the past 12 months before the respective memorandum of agreements and Shipbuilding Contracts.

The transactions contemplated under (i) the Seven Vessel MOA and the seven bareboat charterparties, (ii) the Ocean Bulker MOA, and (iii) the Shipbuilding Contracts 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 such 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

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:

<i>Authorised:</i>		<i>US\$</i>
3,600,000,000	shares (Shares of US\$0.10 each)	360,000,000

<i>Issued:</i>		
1,282,400,609	shares (Shares of US\$0.10 each)	128,240,060

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 (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 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	–	5,626,612	–	18,386,905 ³	3,200,000 ¹	27,213,517	2.12%
Richard M Hext	–	3,333,333 ²	–	–	5,000,000 ²	8,333,333	0.65%
Mark M Harris	6,282,261 ⁶	12,121,001	–	–	3,200,000 ¹	21,603,262	1.68%
Paul C Over	–	–	–	23,535,041 ⁴	3,200,000 ¹	26,735,041	2.08%
Simon K Y Lee	–	–	–	60,807,220 ⁵	–	60,807,220	4.74%

Notes:

- (1) On 14 July 2004, each of Christopher Buttery, Mark Harris 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, Mark Harris 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 5 April 2005, Mr Hext joined the Company as an executive Director and he was entitled to a grant of 5 million Share options, granted pursuant to the Long Term Incentive Scheme on this date. The subscription price is HK\$3.875 per Share. In relation to the grant of 5,000,000 Share options, 1,000,000 Share options are exercisable for each of the following period (i) from 5 April 2006 to 5 April 2015, (ii) from 5 April 2007 to 14 July 2015, (iii) from 5 April 2008 to 14 July 2015, (iv) from 5 April 2009 to 14 July 2015, and (v) from 5 April 2010 to 14 July 2015.

On 16 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 will vest 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.

- (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, 7,377,000 Shares and 10,100,000 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 Mr Lee, the discretionary objects of which include his family members.
- (6) Dragon Island Shipping Limited owns 6,282,261 Shares in the Company which is controlled by Mr Harris.

(ii) Interests of Shareholders discloseable pursuant to the SFO

As at the Latest Practicable Date, the Directors or the chief executive of the Company are not aware that there is any party who 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 and 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 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.