

ASIA - EDITION



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EQUITY WITH SEOUL

SALE LEASE BACK FINANCING MAKES ITS MARK IN ASIA

As the public equity markets have cooled down in Asia and other regions for shipping deals we see an increased activity in the sale lease back market and increasingly here in Asia. Following you will find a description of a Korean structure which has been done for a non-Korean shipping company and also the two latest deals provided by Asian based advisors for SE Asian companies.

EQUITY WITH SEOUL

As we learned earlier this winter Fortis arranged for the sale of four of Top Tankers vessels – the Priceless, Flawless, Timeless and Stopless – to be sold to KOMARF and leased back to Top in March 2006.

We thought it might be interesting to take a closer look at what KOMARF did do, which makes it clear that the fund is in fact poised to become an increasingly important player on the international stage of ship finance.

Top Tankers CFO Stamatis Tsantanis noted at Marine Money Week that Fortis was able to offer more attractive terms on their sale leaseback transaction through the sale to KOMARF and that Top would have liked to do the entire transaction this way had it been possible. He cited the lack of liquidity in the Korean market for this transaction as the reason his company was not able to do the entire transaction there (US based ICON Capital took another 9 vessels in a sale lease back deal at the same time). The estimated value of the four suezmax tankers sold to KOMARF is just shy of \$200 million, while the value of all 13 vessels sold and leased

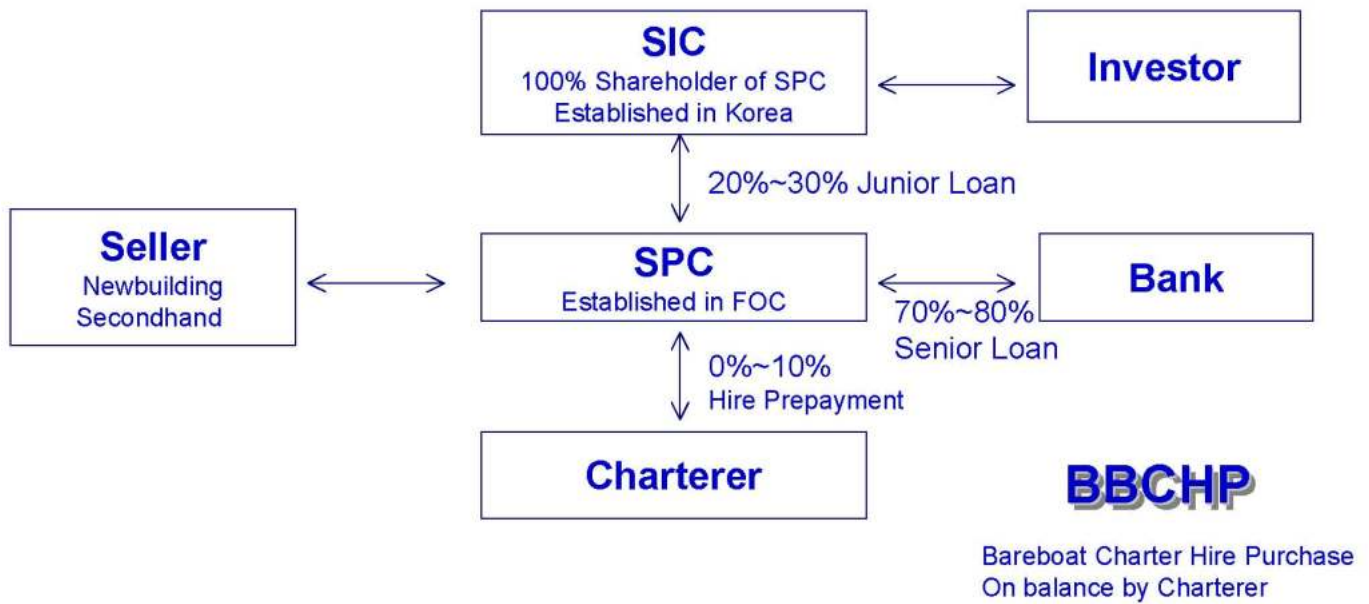
back by Top Tankers in March 2006 is around \$550 million. KOMARF, however, explains that the volume itself did not present a challenge for the SIC market as the funds that can be raised through public offerings of these companies are theoretically limitless. Rather, this deal represented the first deal done between KOMARF and a foreign company as well as the fund's first real equity deal where there is no purchase obligation from the charterer, meaning the Korean equity investors assume full residual risk. As a result, SIC investors were particularly cautious about this deal but would certainly consider bigger ticket transactions in the future.

KOMARF has funded a total of 23 vessels worth close to \$1.2 billion in the past three years, since the Ship Investment Company (SIC) Act was enacted, making shipping a prime destination for the large amounts of money in Korea seeking investment.

As some brief background for the many who are not familiar with the Korean leasing market, each SIC owns one vessel and is listed on the Korean stock exchange. The SIC is owned by an SPC, which in turn owns the vessel and is subject to English law. Equity investments are typically 5 to 15 years, and charterers are expected to have transparent and regularly updated financial information (making public companies a good candidate).

The basic structure of KOMARF's business models is shown in the diagram that accompanies this article.

Continued on next page



The model utilizes an SPC established in a flag of convenience country. Each SPC owns one vessel and is in turn 100% owned by a Korean SIC (an SIC only owns one SPC, and hence one vessel). The SIC is listed on the Korean stock exchange and uses its equity to issue the SPC a junior loan that typically represents 20-40% of the value of the vessel. The SPC also takes a senior loan out from a bank that typically accounts for 60-80% out of the value of the vessel. Typically SICs perform like bonds, as SIC investors essentially issue a junior loan to the SPC, on which the SPC pays regular interest until the end of the charter term, at which point the

charterer has committed to a purchase obligation so that outstanding debt may be repaid. In the case of Top Tankers, the situation is slightly different, as no purchase obligation was included. Instead, Korean equity investors took the residual value risk when they bought the deal.

The equity portion of the financing was also higher in this instance. The accompanying table shows a sample list of transactions concluded through the Korean SIC market since the SIC legislation was passed around three years ago.

Company	Type	Price(Usm)	Amount	Advisors
Hyundai Merchant Marine	VLCC	\$ 67	1	KOMARF; KEXIM; IBK
Hyundai Merchant Marine	VLCC	\$ 60	1	KOMARF;KDB
Hyundai Merchant Marine	Container	\$ 252	3	KOMARF;KDB
Hyundai Merchant Marine	VLCC	\$ 54	1	KOMARF;KDB
Chang Myung Shipping	Bulker	\$ 27	1	KOMARF;KDB
Korea Line Corporation	Cape Bulker	\$ 54	1	KOMARF;KDB
Hyundai Merchant Marine	VLCC	\$ 41	1	KOMARF;KDB
Hyundai Merchant Marine	Container	\$ 395	5	KOMARF;KDB
STX Corporation	Container	\$ 34	1	KOMARF;KDB
Shinsung	Bulk	\$ 36	3	KOMARF; CHB
Polaris	Container	\$ 13	1	KOMARF
TOP Tankers Inc.	Tanker Ships	\$ 192	4	KOMARF; Fortis Bank

NFC SHIPPING FUNDS DOES 2ND SALE LEASEBACK DEAL WITH EZRA

Navigation Finance Corp has had a busy summer, completing a \$181.3 million sale leaseback with Ezra just on the heels of a \$30 million deal they completed with Fredriksen entity Golden Ocean Group.

In the Ezra deal, Singapore-based Lewek Shipping, a wholly-owned Ezra subsidiary, will be selling seven

deepwater anchor handling tug supply vessels and two anchor handling tugs under construction to NFC. The company will then take the ships back on bareboat for an undisclosed amount of time. The deal fits into Ezra's strategy of using sale leasebacks to finance rapid expansion. It is similar to a \$78.1 million deal done last year between Ezra and NFC whereby Mount Faber KS put up the equity for four anchor handling tug supply

vessels.

With the assumption that NFC is providing 30% of the equity we have learned that they plan on taking half of it thru their AI Rubban NFC Shipping Fund IV and the

other half to other investors, which will be done closer to delivery of the vessels. DVB Bank won the mandate and has syndicated the debt portion of the deal to Natexis, Bank of Scotland, NordLB, UOB and HVB.

FIRST SHIP LEASE SECURES 2nd SALE LEASEBACK DEAL WITH BLT

Singapore based First Ship Lease has concluded its third sale and leaseback deal in three months. The company in June has purchased two 19,900 dwt chemical tankers newbuildings with high specifications and 20 stainless steel containers. The vessels are under construction at Japanese shipyard Usuki with delivery this month and August. The vessels MT Pertiwi and MT Pujawati will be purchased from BLT at \$90M and chartered back to BLT over a 12 year term under Singapore flag. Yesterday we learned that FSL has purchased a third vessel from BLT. The vessel was delivered last week from Shin Kurushima in Japan. The MT Prita

Dewi, a similar vessel to the above was purchased and leased back to BLT at the same price and terms. The deal is again a testament that Asian owners are looking at alternative financing sources to improve liquidity and the sale-leaseback option. FSL has now comfortably established itself in Asia providing this option and with the top tier clients they have secured they are well positioned for further growth and building up their balance sheet. FSL has equity on call allowing them to commit to another \$600M in transactions.

ING BANK MANDATED FOR SYNDICATING \$276M FOR Xihe (Pte) Ltd/OCEAN TANKER

We understand that ING Bank has been given the mandate to syndicate a \$276M loan for Xihe Pte Ltd, a holding company of Singapore based Ocean Tankers. The funding is for the order of 4 x VLCC's to be delivered from Capesize and aframax specialist Shanghai Wai-

gaoqiao Shipbuilding at an estimated cost of \$115 each. The vessels are 316,000dwt and the first vessel will be delivered March 2009. All vessels will be chartered to Ocean Tankers.

MORGAN STANLEY AWARDED MANDATE AS SOLE LEAD ARRANGER FOR PSA \$1B BOND

Morgan Stanley has been awarded the sole bookrunner for the bond component of Singapore's PSA International's financing for the \$4.4B acquisition of 20% stake Hutchison Port Holdings. This comes as no surprise as they advised PSA on the acquisition and participated with RBS in the \$1.8B bridge loan. PSA signed last week the loan facility of \$3.42B with lead banks Bar-

clays, DBS and RBS. The road show for the bond will start this Thursday and Friday in Singapore and Hong Kong and will then move on to the US and Europe next week. The \$4.4B acquisition, which is PSA's largest investment ever will give them a 20% stake in the 42 ports controlled by Hutchison.

NATEXIS AND GOLDMAN SACHS AWARDED MANDATE FOR PT APEXINDO \$120M FINANCING

We have learned thru local Indonesian press that Natexis and Goldman Sachs has secured the mandate for a \$120M financing for Indonesian drilling company PT Apexindo (SeaDrill has a 30% shareholding). Natexis is the arranger of the amortizing tranche with Goldman Sachs and PMA as investors. The financing which goes over 10 years is for the construction of a jack up rig to be delivered early 2007 from PPL in Singapore at a total price of \$145M. This combination of players is first of its kind in Indonesia for an offshore

deal and a good mix, especially considering Natexis' experience with the Indonesian market.

On another note we can inform that Natexis has been quite successful in their strategy of servicing emerging markets in Asia and will send Mr. Julien Duquenne from their Paris office to Singapore to cover SE Asia. The shipping desk will be operational from October.

WORLDYARDS.COM LOOKS AT OVER-INVESTMENT

In our two earlier articles we considered the issues of under-reporting of the Japanese orderbook (which is much larger than commonly reported) as well as the capacity developments in China. We warned that under-estimation of the current orderbook and misunderstanding of Chinese growth might lead to over-investment. Shipowners and shipbuilders alike will be bullish.

By way of example, we provide a comparison table of

	VLCC	VLGC	PP Containers
LRF	28.75% (140)	54.95% (61)	57.37% (249)
Clarkson	28.87% (140)	50.00% (54)	59.27% (259)
WY	32.72% (159)	57.41% (62)	63.91% (278)

Number of orders in brackets. Source: www.worldyards.com as of 11th July 2006.

orderbook ratio between Worldyards and two other sources (LRF and Clarksons respectively), for 3 types of ships: VLCC, VLGC and Postpanamax container ships (PP Containers):

The source of the difference is mainly Worldyard's information from Japan, even though we know for a fact that what we manage to uncover there is still far from adequate ("the tip of the iceberg" seems to be an appropriate expression). Combine this uncertainty about the Japanese orderbook with under-reporting of up to

7% on the orderbook in the large vessel segments by several sources, and we would recommend owners and investors to carefully consider the data upon which they base their supply & demand assumptions.

There is nothing particularly conspiratorial about the under-reporting of orderbook in Japan. It all hinges on a mere technical reason - the Ministry of Land and International Transport (MLIT) issues a construction permit based on a signed contract, but shipbuilders regularly wait until just before steel cutting to sign the real contract. They delay as long as possible the purchase of ship export insurance. The South Korean yards on the other hand are required by the local stock market regulations to report contract basics such as ship type and delivery year. The Japanese shipbuilders have adhered to this practice for years, but of course, times have changed with South Korea having added substantial capacity, plus China rapidly ramping up.

It will do the industry tremendous benefit if there is the same degree of reporting as is the case in South Korea. What the industry analysts requires to get a responsible picture of the forward supply of tonnage is simply a genuine contract month, ship type & size, hull number and delivery date. This would not necessarily be divulging proprietary customer information but it would do the shipyards' customers a lot of good.

PEOPLE & PLACES

KEN MACARTHUR LEAVES ANZ TO SETUP SHOP IN

Long time friend of Marine Money Mr. Ken MacArthur has decided to leave ANZ Bank after a long time with the bank specializing in LNG, FPSO and other energy related transactions. He was also an advisor to Mr. Robert Burke when they put together the OPIC fund.

Ken, with his 18 years of experience in marine finance will be the most experienced ship finance banker in

Australia where he will be setting up Marine Capital Corp. towards the end of summer. He will be raising capital for marine projects, both debt and equity, working with the "need" and the "availability" side. His timing is also impeccable as Australia is flowing over with institutional equity fore fronted by the likes of McQuarries, Allco and Babcock & Brown who are increasing their exposure to the marine sector. It will be very ex-

VOGT & WIIG TO SET UP SHOP IN SINGAPORE

Norwegian law firm Vogt & Wiig headquartered in Oslo and one of the 5 big shipping law firms is setting up shop in Singapore following their Norwegian clients but also servicing Singapore clients an "on sight" service.

Singapore already has Norwegian Wikborg Rein who came here first of the Scandinavian shipping law firms

and have been very successful and quite busy the past years servicing especially the Norwegian rig companies ordering at the yards here. Vogt & Wiig's office will open officially January 2007 and headed by Mr. Erlend Lous, but they will be present frequently towards the opening.

OLE STENE APPOINTED MD OF ABOITIZ JEBSEN BULK TRANSPORT CORP.

One of the veterans of ship management Mr. Ole Stene has been appointed managing director of one of the Norwegian Jepsens group most successful JV with Philippines Aboitiz group, namely Aboitiz Jepsen Bulk Transport Corp. He previously had the same position at their headquarters' in Manila from 1986 to 1992.

Mr. Stene has been within the Jepsen Group in various positions since 1977 until 1997, when he left the group to start working in Wilship and later the Barber system. In 1999 Mr. Stene rejoined the Jepsen Group as the COO of Jepsen Management, the corporate company of the Jepsen Group, which is a position he still holds.

The company is one of the leading ship management companies servicing among others the bulk segment.

5TH ANNUAL SINGAPORE SHIP & OFFSHORE FINANCE FORUM, SEPTEMBER 27

On behalf of our official partner Fortis Bank we are pleased to announce the 5th annual Singapore Ship & Offshore Finance Forum that will take place at the Grand Hyatt Singapore September 27th.

This year's forum will look at the various current finance opportunities for SE Asian shipping companies, but also take a look at the floating production sector, which is one of the hot investment opportunities for investors. As shares of rig companies already have premiums calculated the FPSO/FSO sector still has opportunities as well as other service providers to the oil industry down the logistics chain. The following day our corporate sponsor DBS Vickers will organize one-

on-one meetings with public maritime companies and institutional investors, so please email us at pbogen@marinemoney.com if you would like to utilize this opportunity to promote your share to existing or potential investors.

The forum will also take place during MPA's "Maritime Week" which has facilitated other maritime conferences and social events attracting people from the industry to Singapore. It will definitely be THE week to visit Singapore. Visit our web site at www.marinemoney.com to see the program and registration for our forum.



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MARINE MONEY DEAL TABLES (SELECTED AS OF JAN 2006)

BANK DEBT

Borrower	Arrangers / Buyers	Amount (US\$ M)	Pricing / Purpose / Remarks
PT Apexindo	Natexis & Goldman Sachs	\$120	10yr. Amortizing tranche for construction of jack-up rig with delivery from PPL in 2007
NFC related company	DVB as lead arranger, participants; Natexis, BOS, NordLB, UOB & HVB	approx. \$127	Syndicated loan for acquisition of 7xAHTS & 2xAHT
Ocean Tankers	ING Bank mandated lead arranger	\$276	Syndicated loan for construction of 3xVLCC's at Shanghai Waigaoqiao Shipbuilding
PSA	Morgan Stanley & RBS	\$1,800	Bridge loan for PSA acquisition finance for 20% stake in Hutchison Port
PSA	Barclays, DBS, RBS as lead arrangers	\$3,420	Syndicated acquisition facility to acquire 20% stake in Hutchison Port
Pacific Shipping Trust	DBS Bank, DnB NOR, HSH Nordbank and OCBC	\$155	12 year amortizing loan facility to acq. 8 container vessels from PIL
K1 Shipping	Woori Bank	\$173	Syndicated acquisition facility to purchase 4 mid range tankers
STX Pan Ocean	Woori Bank	\$90	8 year refinance closed as bilateral for 4 ships
Evergreen Maritime	Mizuho Bank & Taipei Fubon Commercial Bank as arrangers. 13 Participants	\$935	5 year syndication
EUKOR	DnBNOR	\$116	2xPCC newbuildings
EUKOR	Korea Development Bank	\$58	PCC newbuilding
EUKOR	Kookmin Bank	\$158	\$100M for refinance and \$58 for PCC newbuilding

EQUITY

Issuer	Underwriters / Advisors	Amount (US\$ M)	Structure / Pricing / Comments	Status
China State Shipbldg. Corp	JPMorgan	500	Planned Hong Kong IPO to raise funds for expansion	Early stages
Varun Shipping	DBS Vickers	NA	Planned Singapore Depository Share (SDS) issue to raise funds for expansion	Withdrawn
ChemOil	Unknown		Bunkering company looking at SGX listing	Early stages
Tianjin Port Development Holdings	ABN Amro Rothschild, CLSA	\$140	Hong Kong IPO of 578,000,000 new shares at HK\$1.88 comprising 34% of enlarged share capital; 1,700 oversubscribed	Done
Berlian Laju	Unknown	\$129	Buy-back of 10% of Jakarta listed shares in preparation for SGX IPO; approx. 415,000 shares at circa IDR 2,750 each	In progress
Pacific Shipping Trust	DBS, ABN Amro & DnB NOR	\$100	222M share 1st shipping reit at \$0.45 per share	Done
Yantai Raffels	Fearnley Fonds	\$150	Private placement with planned listing on OSE	Done
Vietnam Ocean Shipping Agency (VOSA)	Unknown	\$11	Ho Chi Minh City IPO of 38.55% stake; 8x over subscribed	Done
China Shipping Group	BNP Paribas Peregrine	Undetermined	Hong Kong listing of dry bulk assets	Withdrawn
Omega Navigation	Jefferies, JP Morgan	Up to \$290	12,000,000 share IPO in NY & Spore at \$17 per share	Done
Pacific King Shipping	UOB Asia	Undetermined	Planned April IPO in Singapore	Withdrawn
Berlian Laju	Deutsche Bank, UBS	\$125-\$150	Planned Spring 2006 listing in Singapore	In progress

ANALYST COVERAGE

Shipping company	Securities firm	Rating	Price target	Price on report date	Date issued
Arpeni Pratama	DBS Vickers	Strong Buy	IDR 2,100	IDR 1,240	12-Jun
Berlian Laju	CIMB	Outperform	Rp1,040	Rp1400	2-Jan
Berlian Laju	Kim Eng	Buy	Rp1,600	Rp1,300	2-Jan
Berlian Laju	UBS	Buy	Rp1,330	Rp1,040	4-Jan
Berlian Laju Tanker	DBS Vickers	Strong Buy	IDR 3,000	IDR 1,810	12-Jun
China COSCO Holdings	DBS Vickers	Buy	HKS 4.40	HKS 3.50	12-Jun
China Shipping Container	DBS Vickers	Sell	HKS 2.10	HKS 1.89	12-Jun
China Shipping Dev.	DBS Vickers	Sell	HKS 4.80	HKS 26.30	12-Jun
China Shipping Dev.	Goldman Sachs	Outperform	HK \$7.50	HK \$5.50	25-May
China Shipping Dev.	Morgan Stanley		HK \$5.00	HK \$6.00	24-May
COSCO Singapore	DBS Vickers	Buy	S\$1.61	S\$1.22	12-Jun
COSCO Singapore	JPMorgan		S\$2.69	S\$2.46	9-Nov
Ezra Holdings	DBS Vickers	Buy	S\$3.20	S\$2.05	12-Jun
Great Eastern Shipping	Goldman Sachs	In-Line	INR 250.0	INR 237.3	25-May
Great Eastern Shipping	Morgan Stanley		INR 239.0	INR 231.0	24-May
Jaya Holdings	DBS Vickers	Buy	S\$1.64	S\$1.27	12-Jun
Jinhui	ABG Sundal Collier	Hold	\$1.80	\$1.90	30-May
Jinhui	Pareto	Buy	NOK 24	NOK 17	5-Jul
Kawasaki Kisen	Morgan Stanley		JPY 753	JPY 711	24-May
Labroy Marine	DBS Vickers	Hold	S\$1.47	S\$1.16	12-Jun
MISC	DBS Vickers	Hold	RM 8.60	RM 8.25	12-Jun
NOL	DBS Vickers	Fully Valued	S\$2.07	S\$1.65	12-Jun
Omega	Jefferies	Buy	\$22.00	\$13.20	30-Jun
Orient Overseas	DBS Vickers	Fully Valued	HKS 26.30	HKS 26.85	12-Jun
Pacific Basin	Cazenove	Outperform	HK \$4.00	HK \$ 3.35	29-Jun
Pacific Basin	DBS Vickers	Buy	HKS 4.50	HKS 3.35	12-Jun
Pacific Basin	Goldman Sachs	Outperform	HK \$4.50	HK \$ 3.30	1-Jul
Pacific Basin	UBS	Buy 2	\$0.64	\$0.51	7-Mar
Precious Shipping	DBS Vickers	Sell	Bt 26.00	Bt 29.75	12-Jun
Precious Shipping	Goldman Sachs	In-Line	Bt 37.00	Bt 30.00	25-May
Regional Container	DBS Vickers	Fully Valued	Bt 20.20	Bt 18.40	12-Jun
Shipping Corp of India	Morgan Stanley		INR 130	INR 137	24-May
Star Cruises	DBS Vickers	Fully Valued	HKS .21	HKS .18	12-Jun
STX Pan Ocean	Goldman Sachs	Outperform	HK \$1.30	HK \$0.58	25-May
STX PanOcean	DBS Vickers	Fully Valued	S\$0.83	S\$0.85	18-Apr
Thoresen Thai Agencies	DBS Vickers	Buy	Bt 26.00	Bt 17.30	12-Jun
Thoresen Thai Agencies	Goldman Sachs	In-Line	Bt 33.00	Bt 18.70	25-May

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FORUM SCHEDULE 2006



SEPT. 27	5TH ANN. SINGAPORE SHIP FINANCE FORUM	GRAND HYATT, SINGAPORE
OCT. 12	8TH ANN. GREECE SHIP FINANCE FORUM	ATHENS LEDRA MARRIOT
OCT. 19	7TH ANN. MARINE FINANCE FORUM-AMERICAS	HARVARD CLUB, NEW YORK
NOV. 14	3RD ANN. MARINE FINANCE FORUM-LATIN AMERICA	THE BILTMORE, MIAMI
DEC. 1	4TH ANN. CHINA SHIP FINANCE FORUM	RITZ CARLTON HOTEL, SHANGHAI